

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **September 30, 2023**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **000-12436**

COLONY BANKCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Georgia

58-1492391

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

115 South Grant Street, Fitzgerald, Georgia 31750

(Address of principal executive offices) (Zip Code)

(229) 426-6000

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$1.00 per share	CBAN	The NASDAQ Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerate Filer ☐ Accelerated Filer ☒ Non-accelerated Filer ☐
Smaller Reporting Company ☒ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with the new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 7, 2023, the registrant had 17,567,983 shares of common stock, \$1.00 par value per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COLONY BANKCORP, INC. AND SUBSIDIARIES Consolidated Balance Sheets

	September 30, 2023	December 31, 2022
	(Unaudited)	(Audited)
(dollars in thousands, except per share data)		
ASSETS		
Cash and due from banks	\$ 23,010	\$ 20,584
Federal funds sold and interest-bearing deposits in banks	118,330	60,094
Cash and cash equivalents	141,340	80,678
Investment securities available for sale, at fair value	399,547	432,553
Investment securities held to maturity, at amortized cost	451,056	465,858
Other investments, at cost	17,323	13,793
Loans held for sale	27,246	17,743
Loans	1,864,971	1,737,106
Allowance for credit losses on loans	(17,368)	(16,128)
Loans, net	1,847,603	1,720,978
Premises and equipment	42,544	41,606
Other real estate owned	812	651
Goodwill	48,923	48,923
Other intangible assets	4,530	5,664
Bank-owned life insurance	56,541	55,504
Deferred income taxes, net	28,934	28,199
Other assets	27,424	24,420
Total assets	\$ 3,093,823	\$ 2,936,570
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits		
Noninterest-bearing	\$ 494,221	\$ 569,170
Interest-bearing	2,097,111	1,921,827
Total deposits	2,591,332	2,490,997
Federal Home Loan Bank advances	185,000	125,000
Other borrowings	63,422	78,352
Other liabilities	15,377	11,953
Total liabilities	\$ 2,855,131	\$ 2,706,302
Stockholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized, none issued or outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Common stock, par value \$1.00 per share; 50,000,000 shares authorized, 17,567,983 and 17,598,123 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	17,568	17,598
Paid in capital	168,211	167,537
Retained earnings	120,732	111,573
Accumulated other comprehensive loss, net of tax	(67,819)	(66,440)
Total stockholders' equity	238,692	230,268
Total liabilities and stockholders' equity	\$ 3,093,823	\$ 2,936,570

See accompanying notes to consolidated financial statements (unaudited).

COLONY BANKCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
<i>(dollars in thousands, except per share data)</i>				
Interest income				
Loans, including fees	\$ 26,022	\$ 18,183	\$ 72,241	\$ 50,478
Investment securities	5,770	5,266	17,619	14,240
Federal funds sold, interest bearing deposits in banks and short term investments	787	278	1,853	437
Total interest income	32,579	23,727	91,713	65,155
Interest expense				
Deposits	10,338	1,449	23,893	2,674
Federal funds purchased	11	3	146	22
Federal Home Loan Bank Advances	1,568	555	5,140	1,746
Other borrowings	1,041	822	3,164	1,441
Total interest expense	12,958	2,829	32,343	5,883
Net interest income	19,621	20,898	59,370	59,272
Provision for credit losses ⁽¹⁾	1,000	1,320	2,100	2,470
Net interest income after provision for credit losses	18,621	19,578	57,270	56,802
Noninterest income				
Service charges on deposits	2,200	2,104	6,141	5,823
Mortgage fee income	1,730	1,708	4,928	7,356
Gain on sales of SBA loans	1,268	1,215	3,429	4,805
Loss on sales of securities	—	(96)	—	(72)
Interchange fees	2,202	2,179	6,400	6,338
BOLI Income	335	312	1,024	977
Insurance commissions	509	466	1,410	1,328
Other	1,474	258	2,997	782
Total noninterest income	9,718	8,146	26,329	27,337
Noninterest expense				
Salaries and employee benefits	11,973	12,154	37,929	40,498
Occupancy and equipment	1,620	1,645	4,741	4,872
Information technology expenses	2,064	2,491	6,406	7,394
Professional fees	752	881	2,348	2,773
Advertising and public relations	766	876	2,432	2,406
Communications	224	471	710	1,325
Other	3,482	2,849	8,912	8,380
Total noninterest expense	20,881	21,367	63,478	67,648
Income before income taxes	7,458	6,357	20,121	16,491
Income taxes	1,654	1,105	3,972	2,500
Net income	\$ 5,804	\$ 5,252	\$ 16,149	\$ 13,991
Earnings per common share:				
Basic	\$ 0.33	\$ 0.30	\$ 0.92	\$ 0.82
Diluted	0.33	0.30	0.92	0.82
Dividends declared per share	0.11	0.1075	0.33	0.3225
Weighted average common shares outstanding:				
Basic	17,569,493	17,645,119	17,581,817	17,042,838
Diluted	17,569,493	17,645,119	17,581,817	17,042,838

(1) Beginning January 1, 2023, provision calculation is based on current expected loss methodology. Prior to January 1, 2023, calculation was based on incurred loss methodology.

See accompanying notes to consolidated financial statements (unaudited).

COLONY BANKCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
<i>(dollars in thousands)</i>				
Net income	\$ 5,804	\$ 5,252	\$ 16,149	\$ 13,991
Other comprehensive loss:				
Net unrealized losses on securities arising during the period	(8,527)	(17,210)	(6,706)	(73,036)
Tax effect	2,172	4,475	1,708	18,989
Reclassification adjustment for amortization of unrealized holding (gains) losses included in accumulated other comprehensive income (loss) from the transfer of securities from available for sale to held to maturity	1,300	642	3,942	(9,376)
Tax effect	(331)	(167)	(1,004)	2,438
Realized losses on sales of available for sale securities	—	96	—	72
Tax effect	—	(13)	—	(10)
Unrealized gains on derivative instruments designated as cash flow hedges	811	—	1,087	—
Tax effect	(207)	—	(277)	—
Realized gains on derivative instruments recognized in net income	(164)	—	(173)	—
Tax effect	42	—	44	—
Total other comprehensive loss	(4,904)	(12,177)	(1,379)	(60,923)
Comprehensive income (loss)	\$ 900	\$ (6,925)	\$ 14,770	\$ (46,932)

See accompanying notes to consolidated financial statements (unaudited).

COLONY BANKCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (unaudited)

(dollars in thousands, except per share data)

Three Months Ended	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, June 30, 2023	17,541,661	\$ 17,542	\$ 167,971	\$ 116,857	\$ (62,915)	\$ 239,455
Other comprehensive loss	—	—	—	—	(4,904)	(4,904)
Dividends on common shares (\$0.1100 per share)	—	—	—	(1,929)	—	(1,929)
Issuance of restricted stock, net of forfeitures	44,823	45	(45)	—	—	—
Tax withholding related to vesting of restricted stock	(18,501)	(19)	(155)	—	—	(174)
Stock-based compensation expense	—	—	440	—	—	440
Net income	—	—	—	5,804	—	5,804
Balance, September 30, 2023	17,567,983	\$ 17,568	\$ 168,211	\$ 120,732	\$ (67,819)	\$ 238,692
Balance, June 30, 2022	17,581,212	\$ 17,581	\$ 167,376	\$ 104,561	\$ (54,923)	\$ 234,595
Other comprehensive loss	—	—	—	—	(12,177)	(12,177)
Dividends on common shares (\$0.1075 per share)	—	—	—	(1,895)	—	(1,895)
Issuance of restricted stock, net of forfeitures	71,770	72	(72)	—	—	—
Tax withholding related to vesting of restricted stock	(11,859)	(12)	(168)	—	—	(180)
Stock-based compensation expense	—	—	472	—	—	472
Net income	—	—	—	5,252	—	5,252
Balance, September 30, 2022	17,641,123	\$ 17,641	\$ 167,608	\$ 107,918	\$ (67,100)	\$ 226,067

See accompanying notes to consolidated financial statements (unaudited).

(dollars in thousands, except per share data)

Nine Months Ended	Common Stock					Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Paid-In Capital	Retained Earnings			
Balance, December 31, 2022	17,598,123	\$ 17,598	\$ 167,537	\$ 111,573	\$	(66,440)	\$ 230,268
Cumulative change in accounting principle for ASU 2016-13, net of tax ⁽¹⁾	—	—	—	(1,198)		—	(1,198)
Other comprehensive loss	—	—	—	—		(1,379)	(1,379)
Dividends on common shares (\$0.33 per share)	—	—	—	(5,792)		—	(5,792)
Issuance of restricted stock, net of forfeitures	36,152	36	(36)	—		—	—
Tax withholding related to vesting of restricted stock	(24,811)	(25)	(227)	—		—	(252)
Repurchase of shares	(41,481)	(41)	(365)	—		—	(406)
Stock-based compensation expense	—	—	1,302	—		—	1,302
Net income	—	—	—	16,149		—	16,149
Balance, September 30, 2023	<u>17,567,983</u>	<u>\$ 17,568</u>	<u>\$ 168,211</u>	<u>\$ 120,732</u>	<u>\$</u>	<u>(67,819)</u>	<u>\$ 238,692</u>
Balance, December 31, 2021	13,673,898	\$ 13,674	\$ 111,021	\$ 99,189	\$	(6,177)	\$ 217,707
Other comprehensive loss	—	—	—	—		(60,923)	(60,923)
Dividends on common shares (\$0.323 per share)	—	—	—	(5,262)		—	(5,262)
Issuance of common stock	3,848,485	3,848	55,620	—		—	59,468
Issuance of restricted stock, net of forfeitures	133,720	134	(134)	—		—	—
Tax withholding related to vesting of restricted stock	(14,980)	(15)	(216)	—		—	(231)
Stock-based compensation expense	—	—	1,317	—		—	1,317
Net income	—	—	—	13,991		—	13,991
Balance, September 30, 2022	<u>17,641,123</u>	<u>\$ 17,641</u>	<u>\$ 167,608</u>	<u>\$ 107,918</u>	<u>\$</u>	<u>(67,100)</u>	<u>\$ 226,067</u>

⁽¹⁾ Represents the impact of the adoption of Accounting Standards Update ("ASU") No. 2016-13: CECL

See accompanying notes to consolidated financial statements (unaudited).

COLONY BANKCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended	
	September 30, 2023	September 30, 2022
<i>(dollars in thousands)</i>		
Operating Activities		
Net income	\$ 16,149	\$ 13,991
Adjustments reconciling net income to net cash provided by operating activities:		
Provision for credit losses	2,100	2,470
Depreciation, amortization, and accretion	6,653	9,322
Equity method investment (loss) income	(149)	357
Share-based compensation expense	1,302	1,317
Net change in servicing asset	(222)	(582)
Loss on sales of securities, available-for-sale	—	72
Gain on sales of SBA loans	(3,429)	(4,805)
Gain on sales of other real estate owned	(13)	—
Donation of other real estate owned	—	35
Gain on sales of premises & equipment	(202)	(65)
Originations of loans held for sale	(200,638)	(269,586)
Proceeds from sales of loans held for sale	194,564	288,596
Change in bank-owned life insurance	(1,037)	(1,006)
Deferred tax benefit	146	(990)
Change in other assets	(1,868)	(4,529)
Change in other liabilities	1,854	867
Net cash provided by operating activities	15,210	35,464
Investing Activities		
Purchases of investment securities, available-for-sale	(3,917)	(157,391)
Proceeds from maturities, calls, and paydowns of investment securities, available-for-sale	28,591	45,014
Proceeds from sales of investment securities, available-for-sale	—	47,175
Proceeds from maturities, calls and paydowns of securities, held-to-maturity	16,896	8,432
Change in loans, net	(129,286)	(249,384)
Purchase of premises and equipment	(2,984)	(1,449)
Proceeds from sales of premises and equipment	433	71
Proceeds from sales of other real estate owned	215	—
Proceeds from bank-owned life insurance	—	1,008
Redemption of other investments	800	2,506
Purchase of Federal Home Loan Bank Stock	(4,181)	(1,701)
Net cash used in investing activities	(93,433)	(305,719)
Financing Activities		
Change in noninterest-bearing customer deposits	(74,949)	5,771
Change in interest-bearing customer deposits	175,284	29,283
Issuance of common stock, net of stock issuance cost	—	59,468
Dividends paid for common stock	(5,792)	(5,262)
Issuance of Subordinated Debt	—	39,097
Repayments on Federal Home Loan Bank Advances	(625,000)	(137,500)
Proceeds from Federal Home Loan Bank Advances	685,000	180,000
Repayments on other borrowings	(270,000)	(112,563)
Proceeds from other borrowings	255,000	100,000
Repurchase of shares	(406)	—
Tax withholding related to vesting of restricted stock	(252)	(231)
Net cash provided by financing activities	138,885	158,063
Net increase (decrease) in cash and cash equivalents	60,662	(112,192)
Cash and cash equivalents at beginning of period	80,678	197,232
Cash and cash equivalents at end of period	\$ 141,340	\$ 85,040

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW (unaudited)

	Nine Months Ended	
	September 30, 2023	September 30, 2022
<i>(dollars in thousands)</i>		
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 30,323	\$ 5,053
Cash paid during the period for income taxes	4,000	3,625
Noncash Investing and Financing Activities		
Goodwill adjustment	—	(3,983)
Carrying amount of Securities AFS transferred to HTM, net of \$ 34.0 million unrealized loss	—	510,956

See accompanying notes to consolidated financial statements (unaudited).

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Summary of Significant Accounting Policies

Presentation

Colony Bankcorp, Inc. (the "Company") is a bank holding company located in Fitzgerald, Georgia. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Colony Bank, Fitzgerald, Georgia (the "Bank"). The "Company" or "our," as used herein, includes Colony Bank, except where the context requires otherwise.

In July 2019, a new subsidiary of the Company was incorporated under the name Colony Risk Management, Inc. Colony Risk Management, Inc. is a subsidiary of the Company and is located in Las Vegas, Nevada. It is a captive insurance subsidiary which insures various liability and property damage policies for the Company and its related subsidiaries. Colony Risk Management is regulated by the State of Nevada Division of Insurance.

All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements, have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. All significant intercompany accounts have been eliminated in consolidation.

The accounting and reporting policies of the Company conform to generally accepted accounting principles and practices utilized in the commercial banking industry for interim financial information and Regulation S-X. Accordingly, the accompanying unaudited interim consolidated financial statements do not include all of the information or notes required for complete financial statements.

The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results which may be expected for the year ending December 31, 2023. These statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 ("2022 Form 10-K").

Nature of Operations

The Bank provides a full range of retail, commercial and mortgage banking services as well as wealth management and insurance services for consumers and small- to medium-size businesses located primarily in north central, south and coastal Georgia and in Alabama through a loan production office. The Bank is headquartered in Fitzgerald, Georgia with banking and mortgage offices in Albany, Ashburn, Athens, Broxton, Centerville, Columbus, Cordele, Douglas, Eastman, Fitzgerald, LaGrange, Leesburg, Macon, Moultrie, Quitman, Rochelle, Savannah, Soperton, Statesboro, Sylvester, Tifton, Valdosta and Warner Robins and a loan production office in Birmingham, Alabama. Lending and investing activities are funded primarily by deposits gathered through its retail banking office network.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair value of assets acquired and liabilities assumed in a business combination, including goodwill impairment.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2023. Such reclassifications have not materially affected previously reported stockholders' equity or net income.

Notes to Consolidated Financial Statements (Unaudited)

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk. At September 30, 2023, approximately 83% of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. Management continues to monitor these concentrations and has considered these concentrations in its allowance for credit loss analysis.

The success of the Company is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. Adverse changes in the economic conditions in these geographic markets would likely have a material adverse effect on the Company's results of operations and financial condition. The operating results of the Company depend primarily on its net interest income. Accordingly, operations are subject to risks and uncertainties surrounding the exposure to changes in the interest rate environment.

At times, the Company may have cash and cash equivalents at financial institutions in excess of federal deposit insurance limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk.

Allowance for Credit Losses ("ACL") – Loans

The current expected credit loss ("CECL") approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It replaced the incurred loss approach's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred. The estimate of expected credit losses is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. The Company then considers whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the historical period used. The Company also considers future economic conditions and portfolio performance as part of a reasonable and supportable forecast period.

The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the ACL when management believes the uncollectibility of a loan balance is confirmed. Accrued interest receivable is excluded from the estimate of credit losses.

Management determines the ACL balance using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit behaviors along with model judgments provide the basis for the estimation of expected credit losses. Adjustments to modeled loss estimates may be made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in economic conditions, property values, or other relevant factors. For the majority of loans and leases the ACL is calculated using a discounted cash flow methodology applied at a loan level with a one-year reasonable and supportable forecast period and a two-year straight-line reversion period.

The ACL-loans is measured on a collective basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the ACL for each using a discounted cash flow methodology at the loan level, with loss rates, prepayment assumptions and curtailment assumptions driven by each loan's collateral type:

- Construction, land & land development - Risks common to construction, land & development loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values.
- Other commercial real estate - Loans in this category are susceptible to business failures and declines in general economic conditions, including declines in real estate value, declines in occupancy rates, and lack of suitable alternative use for the property.
- Commercial, financial & agricultural - Risks to this loan category include the inability to monitor the condition of the collateral, which often consists of inventory, accounts receivable and other non-real estate assets. Equipment and

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

- Residential real estate - Residential real estate loans are susceptible to weakening general economic conditions, increases in unemployment rates and declining real estate values.
- Consumer and other - Risks common to consumer direct loans include unemployment and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

Management estimates expected credit losses on commitments to extend credit over the contractual period during which the Company is exposed to credit risk on the underlying commitments. The ACL on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The ACL is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to fund.

Allowance for Credit Losses – Held-to-Maturity Securities ("HTM")

Management measures current expected credit losses on HTM debt securities on a collective basis by major security type. The estimate of current expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the HTM portfolio into the following major security types: U.S. Treasury securities, U.S. agency securities, State, county & municipal securities, and Mortgage-backed securities. Accrued interest receivable on HTM debt is excluded from the estimate of credit losses.

All of the residential and commercial mortgage-backed securities held by the Company as HTM are issued by U.S. Government agencies and government sponsored entities. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and political subdivision securities are also highly rated by major rating agencies.

Allowance for Credit Losses – Available-for-Sale Securities ("AFS")

For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income. Accrued interest receivable on AFS debt securities is excluded from the estimate of credit losses.

Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

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Derivatives

The Company records cash flow hedges at the inception of a derivative contract based on management's intentions and belief as to the likely effectiveness of the hedge. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is recorded in other comprehensive income ("OCI") and is reclassified into earnings in the same period during which the hedged transaction affects earnings. The changes in the fair value of a derivative that is not highly effective in hedging the expected cash flows of the hedged item are recognized immediately as interest expense in the consolidated statements of income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income or noninterest expense. Cash flows from hedges are classified in the consolidated statements of cash flows in the same manner as the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in cash flows of the hedged item. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in cash flows of the hedged item, the derivative is settled or terminated, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as interest expense. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in OCI are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Changes in Accounting Principles

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, was adopted by the Company on January 1, 2023, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of \$1.2 million, net of tax, as of January 1, 2023 for the cumulative effect of adopting ASC 326, primarily related to credit losses for unfunded commitments.

ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, was adopted by the Company on January 1, 2023. This ASU provides guidance on eliminating the requirement for classification of and disclosures around troubled debt restructurings (TDRs). The purpose of this guidance is to eliminate unnecessary and overly-complex disclosures of loans that are already incorporated into the allowance for credit losses and related disclosures while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. Modified terms include one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the term or amortization period, a more than insignificant payment delay or principal forgiveness. As of September 30, 2023, the Company had two loans that met the requirements of this disclosure and

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are included in Note 3 - Loans. This ASU further requires the disclosure of current-period gross charge-offs by year of origination. Current period gross charge-offs are included in the term loan vintage table in Note 3 - Loans.

In March 2023, the FASB issued ASU 2023-02, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." ASU 2023-02 permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. ASU 2023-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. ASU 2023-02 is not expected to have a material impact on the Company's consolidated financial statements.

COLONY BANKCORP, INC. AND SUBSIDIARIES

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(2) Investment Securities

The amortized cost and estimated fair value of securities available-for-sale and held-to-maturity along with gross unrealized gains and losses are summarized as follows:

(dollars in thousands)

September 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. treasury securities	\$ 799	\$ —	\$ (8)	\$ 791
U.S. agency securities	4,613	—	(510)	4,103
Asset backed securities	27,250	6	(411)	26,845
State, county & municipal securities	124,882	—	(23,228)	101,654
Corporate debt securities	54,694	—	(7,665)	47,029
Mortgage-backed securities	251,658	—	(32,533)	219,125
Total	<u>\$ 463,896</u>	<u>\$ 6</u>	<u>\$ (64,355)</u>	<u>\$ 399,547</u>

September 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity:				
U.S. treasury securities	\$ 92,880	\$ —	\$ (5,483)	\$ 87,397
U.S. agency securities	16,314	—	(1,975)	14,339
State, county & municipal securities	136,546	—	(22,986)	113,560
Mortgage-backed securities	205,316	—	(35,547)	169,769
Total	<u>\$ 451,056</u>	<u>\$ —</u>	<u>\$ (65,991)</u>	<u>\$ 385,065</u>

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. treasury securities	\$ 1,644	\$ —	\$ (22)	\$ 1,622
U.S. agency securities	5,035	—	(450)	4,585
Asset backed securities	31,468	—	(1,480)	29,988
State, county & municipal securities	126,119	—	(21,363)	104,756
Corporate debt securities	54,741	164	(5,320)	49,585
Mortgage-backed securities	271,199	9	(29,191)	242,017
Total	<u>\$ 490,206</u>	<u>\$ 173</u>	<u>\$ (57,826)</u>	<u>\$ 432,553</u>

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity:				
U.S. treasury securities	\$ 91,615	\$ —	\$ (4,149)	\$ 87,466
U.S. agency securities	16,409	—	(1,838)	14,571
State, county & municipal securities	136,138	32	(19,518)	116,652
Mortgage-backed securities	221,696	—	(29,121)	192,575
Total	<u>\$ 465,858</u>	<u>\$ 32</u>	<u>\$ (54,626)</u>	<u>\$ 411,264</u>

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The Company elected to exclude accrued interest receivable from the amortized cost basis of available-for-sale and held-to-maturity securities disclosed throughout this note. As of September 30, 2023 and December 31, 2022, accrued interest receivable for available-for-sale and held-to-maturity securities totaled \$2.2 million and \$2.6 million, and \$2.0 million and \$1.9 million, respectively, and is included in the "other assets" line item on the Company's consolidated balance sheet.

The Company transferred certain agency-issued securities from the available-for-sale to held-to-maturity portfolio on January 1, 2022 and September 1, 2022, having a combined book value of approximately \$511.0 million and a combined market value of approximately \$477.0 million. As of the date of each transfer, the related pre-tax net unrecognized losses of approximately \$34.0 million within the accumulated other comprehensive loss balance are being amortized over the remaining term of the securities using the effective interest method. This transfer was completed after careful consideration of the Company's intent and ability to hold these securities to maturity. Factors used in assessing the ability to hold these securities to maturity were future liquidity needs and sources of funding. The Company has had no other transfers of securities since September 1, 2022.

The amortized cost and fair value of investment securities as of September 30, 2023, by contractual maturity, are shown hereafter. Expected maturities may differ from contractual maturities for certain investments because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

(dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 1,014	\$ 1,002	\$ —	\$ —
Due after one year through five years	15,542	14,127	91,725	86,380
Due after five years through ten years	95,886	79,640	75,296	64,377
Due after ten years	99,796	85,653	78,719	64,539
	<u>\$ 212,238</u>	<u>\$ 180,422</u>	<u>\$ 245,740</u>	<u>\$ 215,296</u>
Mortgage-backed securities	251,658	219,125	205,316	169,769
	<u>\$ 463,896</u>	<u>\$ 399,547</u>	<u>\$ 451,056</u>	<u>\$ 385,065</u>

Proceeds from the sale of investment securities totaled \$44.1 million and \$47.2 million for the three and nine month periods ended September 30, 2022, respectively. The sale of investment securities resulted in gross realized gains of \$0 and \$24,000 for the three and nine months ended September 30, 2022 and gross realized losses of \$96,000 for the both the three and nine months ended September 30, 2022.

Investment securities having a carrying value of approximately \$394.0 million and \$541.8 million were pledged to secure public deposits and for other purposes as of September 30, 2023 and December 31, 2022, respectively.

Information pertaining to available-for-sale securities with gross unrealized losses at September 30, 2023 and December 31, 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position

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is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(dollars in thousands)</i>						
September 30, 2023						
U.S. treasury securities	\$ —	\$ —	\$ 791	\$ (8)	\$ 791	\$ (8)
U.S. agency securities	—	—	4,103	(510)	4,103	(510)
Asset backed securities	5,934	(14)	18,598	(397)	24,532	(411)
State, county & municipal securities	1,457	(276)	100,197	(22,952)	101,654	(23,228)
Corporate debt securities	7,660	(1,632)	39,369	(6,033)	47,029	(7,665)
Mortgage-backed securities	16,088	(424)	203,037	(32,109)	219,125	(32,533)
	<u>\$ 31,139</u>	<u>\$ (2,346)</u>	<u>\$ 366,095</u>	<u>\$ (62,009)</u>	<u>\$ 397,234</u>	<u>\$ (64,355)</u>
December 31, 2022						
U.S. treasury securities	\$ 1,377	\$ (17)	\$ 245	\$ (5)	\$ 1,622	\$ (22)
U.S. agency securities	3,221	(257)	1,364	(193)	4,585	(450)
Asset backed securities	10,780	(319)	19,208	(1,161)	29,988	(1,480)
State, county & municipal securities	29,284	(3,629)	75,472	(17,734)	104,756	(21,363)
Corporate debt securities	17,258	(1,463)	30,651	(3,857)	47,909	(5,320)
Mortgage-backed securities	122,031	(7,890)	119,409	(21,301)	241,440	(29,191)
	<u>\$ 183,951</u>	<u>\$ (13,575)</u>	<u>\$ 246,349</u>	<u>\$ (44,251)</u>	<u>\$ 430,300</u>	<u>\$ (57,826)</u>

Information pertaining to held-to-maturity securities with gross unrealized losses at September 30, 2023 and December 31, 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(dollars in thousands)</i>						
September 30, 2023						
U.S. treasury securities	\$ —	\$ —	\$ 87,397	\$ (5,483)	\$ 87,397	\$ (5,483)
U.S. agency securities	—	—	14,339	(1,975)	14,339	(1,975)
State, county & municipal securities	18,041	(1,349)	95,519	(21,637)	113,560	(22,986)
Mortgage-backed securities	—	—	169,769	(35,547)	169,769	(35,547)
	<u>\$ 18,041</u>	<u>\$ (1,349)</u>	<u>\$ 367,024</u>	<u>\$ (64,642)</u>	<u>\$ 385,065</u>	<u>\$ (65,991)</u>
December 31, 2022						
U.S. treasury securities	\$ —	\$ —	\$ 87,466	\$ (4,149)	\$ 87,466	\$ (4,149)
U.S. agency securities	—	—	14,571	(1,838)	14,571	(1,838)
State, county & municipal securities	9,858	(1,392)	105,734	(18,126)	115,592	(19,518)
Mortgage-backed securities	13,580	(729)	178,995	(28,392)	192,575	(29,121)
	<u>\$ 23,438</u>	<u>\$ (2,121)</u>	<u>\$ 386,766</u>	<u>\$ (52,505)</u>	<u>\$ 410,204</u>	<u>\$ (54,626)</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent

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Notes to Consolidated Financial Statements (Unaudited)

and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2023, there were 282 available-for-sale securities and 159 held-to-maturity securities that had unrealized losses. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

The Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326), as amended on January 1, 2023 which included evaluation of expected credit losses on debt securities. As part of the Company's calculated credit losses, the allowance for credit losses on investment securities was determined to be de minimis due to the high credit quality of the portfolio, which includes securities issued or guaranteed by the U.S. Treasury, U.S. Government agencies and high quality municipalities. Therefore, no allowance for credit losses was recorded as of September 30, 2023. See Note 1 for additional details on the allowance for credit losses as it relates to the securities portfolio.

(3) Loans

The following table presents the composition of loans segregated by class of loans, as of September 30, 2023 and December 31, 2022.

<i>(dollars in thousands)</i>	September 30, 2023	December 31, 2022
Construction, land & land development	\$ 245,268	\$ 229,435
Other commercial real estate	969,168	975,447
Total commercial real estate	1,214,436	1,204,882
Residential real estate	339,501	290,054
Commercial, financial & agricultural	252,725	223,923
Consumer and other	58,309	18,247
Total Loans	\$ 1,864,971	\$ 1,737,106

Included in the above table are government guaranteed loans totaling \$ 82.4 million at September 30, 2023 and \$58.4 million at December 31, 2022. The following table presents the composition of government guaranteed loans segregated by class of loans for each respective period.

<i>(dollars in thousands)</i>	September 30, 2023	December 31, 2022
Construction, land & land development	\$ 7,665	\$ 5,888
Other commercial real estate	35,316	32,642
Total commercial real estate	42,981	38,530
Residential real estate	11,757	8,036
Commercial, financial & agricultural	27,645	11,787
Consumer and other	—	—
Total Loans	\$ 82,383	\$ 58,353

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this note. As of September 30, 2023 and December 31, 2022, accrued interest receivable for loans totaled \$8.5 million and \$6.8 million, respectively, and is included in the "other assets" line item on the Company's consolidated balance sheet.

Commercial, financial & agricultural loans are extended to a diverse group of businesses within the Company's market area. These loans are often underwritten based on the borrower's ability to service the debt from income from the business. Real estate construction loans often require loan funds to be advanced prior to completion of the project. Due to uncertainties

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inherent in estimating construction costs, changes in interest rates and other economic conditions, these loans often pose a higher risk than other types of loans. Consumer and other loans are originated at the Bank level.

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (1) the risk grade assigned to commercial and consumer loans, (2) the level of classified commercial loans, (3) net charge-offs, (4) nonperforming loans, and (5) the general economic conditions in the Company's geographic markets.

The Company uses a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 10. A description of the general characteristics of the grades is as follows:

- Grades 1, 2 and 3 - Borrowers with these assigned risk grades range from virtual absence of risk to minimal risk. Such loans may be secured by Company-issued and controlled certificates of deposit or properly margined equity securities or bonds. Other loans comprising these grades are made to companies that have been in existence for a long period of time with many years of consecutive profits and strong equity, good liquidity, excellent debt service ability and unblemished past performance, or to exceptionally strong individuals with collateral of unquestioned value that fully secures the loans. Loans in this category fall into the "pass" classification.
- Grades 4 and 5 - Loans assigned these "pass" risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average. These loans are also included in into the "pass" classification.
- Grade 6 - This grade includes "special mention" loans on management's watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.
- Grades 7 and 8 - These grades includes "substandard" loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned grade 8, and these loans often have assigned loss allocations as part of the allowance for credit losses. Generally, loans on which interest accrual has been stopped would be included in this grade.
- Grades 9 and 10 - These grades correspond to regulatory classification definitions of "doubtful" and "loss," respectively. In practice, any loan with these grades would be for a very short period of time, and generally the Company has no loans with these assigned grades. Management manages the Company's problem loans in such a way that uncollectible loans or uncollectible portions of loans are charged off immediately with any residual, collectible amounts assigned a risk grade of 7 or 8.

The following table presents the loan portfolio segregated by class of loans and the risk category of term loans by vintage year, which is the year of origination or most recent renewal, as of September 30, 2023. Those loans with a risk grade of 1, 2, 3, 4 and 5 have been combined in the pass column for presentation purposes. There were no loans with a risk rating of "doubtful" or "loss" at September 30, 2023.

Term Loans Amortized Cost Basis by Origination Year							Revolvers converted to term loans		Total
(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolvers		
September 30, 2023									
Construction, land & land development									
Risk rating									
Pass	\$ 93,480	\$ 105,461	\$ 27,729	\$ 7,808	\$ 1,031	\$ 5,955	\$ 2,535	\$ 31	\$ 244,030
Special Mention	—	—	25	—	—	33	—	—	58
Substandard	—	883	5	—	21	146	125	—	1,180
Total Construction, land & land development	93,480	106,344	27,759	7,808	1,052	6,134	2,660	31	245,268
Current period gross write offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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Other commercial real estate									
Risk rating									
Pass	40,254	340,854	208,444	92,693	84,083	155,802	25,603	1,079	948,812
Special Mention	—	802	419	2,128	4,550	4,696	35	—	12,630
Substandard	—	4,423	287	—	—	2,758	258	—	7,726
Total Other commercial real estate	40,254	346,079	209,150	94,821	88,633	163,256	25,896	1,079	969,168
Current period gross write offs	—	—	—	—	—	—	—	—	—
Residential real estate									
Risk rating									
Pass	55,868	119,728	52,516	23,033	9,108	45,226	20,809	—	326,288
Special Mention	296	809	309	51	555	4,461	98	—	6,579
Substandard	253	838	208	271	277	4,777	10	—	6,634
Total Residential real estate	56,417	121,375	53,033	23,355	9,940	54,464	20,917	—	339,501
Current period gross write offs	—	—	—	—	—	—	—	—	—
Commercial, financial & agricultural									
Risk rating									
Pass	62,802	57,302	25,445	14,308	5,415	14,495	56,939	318	237,024
Special Mention	8,471	544	311	390	25	33	826	—	10,600
Substandard	215	88	4,190	129	30	326	98	25	5,101
Total Commercial, financial & agricultural	71,488	57,934	29,946	14,827	5,470	14,854	57,863	343	252,725
Current period gross write offs	—	692	404	—	—	61	—	—	1,157
Consumer and other									
Risk rating									
Pass	47,123	4,622	2,381	1,483	1,017	1,004	445	—	58,075
Special Mention	77	4	43	14	31	2	—	—	171
Substandard	16	23	2	7	5	10	—	—	63
Total Consumer and other	47,216	4,649	2,426	1,504	1,053	1,016	445	—	58,309
Current period gross write offs	—	12	1	4	—	—	—	—	17
Total Loans									
Risk rating									
Pass	299,527	627,968	316,516	139,324	100,653	222,484	106,330	1,428	1,814,230
Special Mention	8,844	2,158	1,108	2,583	5,161	9,224	959	—	30,037
Substandard	484	6,255	4,692	406	333	8,018	491	25	20,704
Total Loans	\$ 308,855	\$ 636,381	\$ 322,316	\$ 142,313	\$ 106,147	\$ 239,726	\$ 107,780	\$ 1,453	\$ 1,864,971
Total current period gross write offs									
	\$ —	\$ 705	\$ 404	\$ 4	\$ —	\$ 61	\$ —	\$ —	\$ 1,174

The following table presents the loan portfolio by credit quality indicator (risk grade) as of December 31, 2022. Those loans with a risk grade of 1, 2, 3, 4 and 5 have been combined

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in the pass column for presentation purposes. There were no loans with a risk rating of "doubtful" or "loss" at December 31, 2022.

(dollars in thousands)

December 31, 2022	Pass	Special Mention	Substandard	Total
Construction, land & land development	\$ 228,494	\$ 290	\$ 651	\$ 229,435
Other commercial real estate	951,126	17,562	6,759	975,447
Total commercial real estate	1,179,620	17,852	7,410	1,204,882
Residential real estate	277,930	6,574	5,550	290,054
Commercial, financial & agricultural	220,908	885	2,130	223,923
Consumer and other	18,157	54	36	18,247
Total Loans	\$ 1,696,615	\$ 25,365	\$ 15,126	\$ 1,737,106

A loan's risk grade is assigned at loan origination and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to review at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of six or below and an outstanding balance of \$500,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for credit loss determination.

Loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory guidelines. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due.

Collateral-Dependent Loans

We classify a loan as collateral-dependent when our borrower is experiencing financial difficulty, and we expect repayment to be provided substantially through the operation or sale of collateral. Our commercial loans have collateral that is comprised of real estate and business assets. Our consumer loans have collateral that is substantially comprised of residential real estate.

There were no significant changes in the extent to which collateral secures our collateral-dependent loans during the three and nine month periods ended September 30, 2023.

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Notes to Consolidated Financial Statements (Unaudited)

The following table presents the aging of the amortized cost basis of loans by aging category and accrual status as of September 30, 2023 and December 31, 2022:

<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
September 30, 2023						
Construction, land & land development	\$ —	\$ —	\$ —	\$ 92	\$ 245,176	\$ 245,268
Other commercial real estate	469	—	469	1,589	967,110	969,168
Total commercial real estate	469	—	469	1,681	1,212,286	1,214,436
Residential real estate	1,185	—	1,185	3,289	335,027	339,501
Commercial, financial & agricultural	131	—	131	4,275	248,319	252,725
Consumer and other	14	9	23	21	58,265	58,309
Total Loans	<u>\$ 1,799</u>	<u>\$ 9</u>	<u>\$ 1,808</u>	<u>\$ 9,266</u>	<u>\$ 1,853,897</u>	<u>\$ 1,864,971</u>
December 31, 2022						
Construction, land & land development	\$ —	\$ —	\$ —	\$ 149	\$ 229,286	\$ 229,435
Other commercial real estate	395	—	395	1,509	973,543	975,447
Total commercial real estate	395	—	395	1,658	1,202,829	1,204,882
Residential real estate	882	—	882	2,686	286,486	290,054
Commercial, financial & agricultural	476	—	476	1,341	222,106	223,923
Consumer and other	40	—	40	21	18,186	18,247
Total Loans	<u>\$ 1,793</u>	<u>\$ —</u>	<u>\$ 1,793</u>	<u>\$ 5,706</u>	<u>\$ 1,729,607</u>	<u>\$ 1,737,106</u>

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated.

<i>(dollars in thousands)</i>	September 30, 2023		
	Nonaccrual Loans with No Related ACL	Nonaccrual Loans with a Related ACL	Total Nonaccrual Loans
Construction, land & land development	\$ 28	\$ 64	\$ 92
Other commercial real estate	784	805	1,589
Total commercial real estate	812	869	1,681
Residential real estate	328	2,961	3,289
Commercial, financial & agricultural	620	3,655	4,275
Consumer and other	—	21	21
Total Loans	<u>\$ 1,760</u>	<u>\$ 7,506</u>	<u>\$ 9,266</u>

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The following table details impaired loan data, including purchased credit impaired loans, as of December 31, 2022.

	December 31, 2022			
	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
<i>(dollars in thousands)</i>				
With No Related Allowance Recorded				
Construction, land & land development	\$ 40	\$ 40	\$ —	\$ 10
Other commercial real estate	3,754	3,754	—	5,311
Residential real estate	62	62	—	570
Commercial, financial & agricultural	—	—	—	306
Consumer and other	—	—	—	1
	<u>3,856</u>	<u>3,856</u>	<u>—</u>	<u>6,198</u>
With An Allowance Recorded				
Construction, land & land development	474	474	44	177
Other commercial real estate	—	—	—	503
Residential real estate	—	—	—	588
Commercial, financial & agricultural	—	—	—	369
Consumer and other	—	—	—	—
	<u>474</u>	<u>474</u>	<u>44</u>	<u>1,637</u>
Purchased Credit Impaired Loans				
Construction, land & land development	—	—	—	—
Other commercial real estate	798	798	33	760
Residential real estate	—	—	—	13
Commercial, financial & agricultural	—	—	—	—
Consumer and other	—	—	—	65
	<u>798</u>	<u>798</u>	<u>33</u>	<u>838</u>
Total				
Construction, land & land development	514	514	44	187
Other commercial real estate	4,552	4,552	33	6,574
Residential real estate	62	62	—	1,171
Commercial, financial & agricultural	—	—	—	675
Consumer and other	—	—	—	66
	<u>\$ 5,128</u>	<u>\$ 5,128</u>	<u>\$ 77</u>	<u>\$ 8,673</u>

Interest income recorded on nonaccrual loans during the three and nine months ended September 30, 2023 was \$ 55,000 and \$265,000, respectively. Interest income recorded on nonaccrual and TDR loans during the three and nine months ended September 30, 2022 was \$165,000 and \$380,000, respectively.

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a discounted cash flow model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. Upon the Company's determination that a modified loan, or portion of a loan, has subsequently been deemed uncollectible, the loan, or portion of the loan, is written off.

The following table presents loans modified due to a financial difficulty under the above terms during the three and nine months ended September 30, 2023.

	Loans modified due to financial difficulty		
	Term Extension	Term Extension and Payment Delay	Total*
<i>(dollars in thousands)</i>			
Residential real estate	\$ 13	\$ —	\$ 13
Commercial, financial & agricultural	—	10	10
Total Loans	\$ 13	\$ 10	\$ 23

*less than .01% of total class of receivable

There was one loan in each of the above categories. The residential real estate loan had a term extension of two years. The commercial, financial & agricultural loan had a term extension of two years and was given a payment delay.

Prior to the adoption of ASU 2022-02 on January 1, 2023, the restructuring of a loan was considered a troubled debt restructuring ("TDR") if both the borrower was experiencing financial difficulties and the Company had granted a concession to the terms of the loan. Concessions may have included interest rate reductions to below market interest rates, principal forgiveness, restructured amortization schedules and other actions intended to minimize potential losses.

As discussed in Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2022, which are included in the Company's 2022 Form 10-K, once a loan was identified as a TDR, it was accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that had a troubled debt restructured loan as of December 31, 2022 and September 30, 2022. Loans modified in a TDR were considered to be in default once the loan became 90 days past due. A TDR ceased being classified as impaired if the loan was subsequently modified at market terms and, had performed according to the modified terms for at least six months, and there had not been any prior principal forgiveness on a cumulative basis.

The Company had no loans that subsequently defaulted during the three and nine month periods ended September 30, 2022 and for the year ended December 31, 2022.

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Notes to Consolidated Financial Statements (Unaudited)

(4) Allowance for Credit Losses

As previously mentioned in Note 1, since the adoption of ASC 326 on January 1, 2023, the ACL for loans represents management's estimate of life of loan credit losses in the portfolio as of the end of the period. The ACL related to unfunded commitments is included in other liabilities in the consolidated balance sheet. The following tables present the balance sheet activity in the ACL by portfolio segment for loans for the three and nine month periods ended September 30, 2023 and September 30, 2022 .

CECL

<i>(dollars in thousands)</i>	Balance June 30, 2023	Charge-Offs	Recoveries	Provision for credit losses on loans	Balance, September 30, 2023
Three Months Ended September 30, 2023					
Construction, land & land development	\$ 2,281	\$ —	\$ 1	\$ (67)	\$ 2,215
Other commercial real estate	8,733	—	8	(21)	8,720
Total commercial real estate	11,014	—	9	(88)	10,935
Residential real estate	2,642	—	3	128	2,773
Commercial, financial & agricultural	2,984	(714)	13	737	3,020
Consumer and other	426	(14)	5	223	640
Total allowance for credit losses on loans	\$ 17,066	\$ (728)	\$ 30	\$ 1,000	\$ 17,368

<i>(dollars in thousands)</i>	Balance December 31, 2022	Adoption of ASU 2016-13	Charge-Offs	Recoveries	Provision for credit losses on loans	Balance, September 30, 2023
Nine Months Ended September 30, 2023						
Construction, land & land development	\$ 1,959	\$ 148	\$ —	\$ 9	\$ 99	2,215
Other commercial real estate	8,886	(630)	—	33	431	8,720
Total commercial real estate	10,845	(482)	—	42	530	10,935
Residential real estate	2,354	1,053	—	40	(674)	2,773
Commercial, financial & agricultural	2,709	(690)	(1,157)	180	1,978	3,020
Consumer and other	220	66	(17)	14	357	640
Total allowance for credit losses on loans	\$ 16,128	\$ (53)	\$ (1,174)	\$ 276	\$ 2,191	\$ 17,368

Incurred Loss

<i>(dollars in thousands)</i>	Balance June 30, 2022	Charge-Offs	Recoveries	Provision	Balance, September 30, 2022
Three Months Ended September 30, 2022					
Construction, land & land development	\$ 1,052	\$ —	\$ 5	\$ 873	\$ 1,930
Other commercial real estate	8,028	—	5	345	8,378
Total commercial real estate	9,080	—	10	1,218	10,308
Residential real estate	1,488	—	23	424	1,935
Commercial, financial & agricultural	1,678	(118)	7	1,163	2,730
Consumer and other	1,717	(33)	10	(1,485)	209
Total allowance for loan losses	\$ 13,963	\$ (151)	\$ 50	\$ 1,320	\$ 15,182

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

<i>(dollars in thousands)</i>	Balance December 31, 2021	Charge-Offs	Recoveries	Provision	Balance, September 30, 2022
Nine Months Ended September 30, 2022					
Construction, land & land development	\$ 1,127	\$ —	\$ 16	\$ 787	\$ 1,930
Other commercial real estate	7,691	(58)	79	666	8,378
Total commercial real estate	8,818	(58)	95	1,453	10,308
Residential real estate	1,805	(48)	45	133	1,935
Commercial, financial & agricultural	1,083	(266)	63	1,850	2,730
Consumer and other	1,204	(54)	25	(966)	209
Total allowance for loan losses	\$ 12,910	\$ (426)	\$ 228	\$ 2,470	\$ 15,182

As of March 31, 2023, Colony used a one-year reasonable and supportable forecast period. The changes in loss rates used as the basis for the estimate of credit losses during this period were modeled using historical data from peer banks and macroeconomic forecast data obtained from a third party vendor, which were then applied to Colony's recent default experience as a starting point. As of September 30, 2023, the Company expects that the markets in which it operates will experience stable economic and unemployment conditions with the trend of delinquencies returning to more normalized levels, over the next two years. Management adjusted the historical loss experience for these expectations. No reversion adjustments were necessary, as the starting point for the Company's estimate was a cumulative loss rate covering the expected contractual term of the portfolio.

The following table represents the recorded investment in loans by portfolio segment and the balance of the allowance assigned to each segment based on the incurred loss methodology of evaluating the loans for impairment as of December 31, 2022.

<i>(dollars in thousands)</i>	Construction, land & land development	Other commercial real estate	Residential real estate	Commercial, financial & agricultural	Consumer and other	Total
Year ended December 31, 2022						
Period end amount allocated to						
Individually evaluated for impairment	\$ 44	\$ —	\$ —	\$ —	\$ —	\$ 44
Collectively evaluated for impairment	1,915	8,853	2,354	2,709	220	16,051
Purchase credit impaired	—	33	—	—	—	33
Ending Balance	\$ 1,959	\$ 8,886	\$ 2,354	\$ 2,709	\$ 220	\$ 16,128
Loans						
Individually evaluated for impairment	\$ 514	\$ 3,754	\$ 62	\$ —	\$ —	\$ 4,330
Collectively evaluated for impairment	228,921	970,895	289,992	223,923	18,247	1,731,978
Purchase credit impaired	—	798	—	—	—	798
Ending Balance	\$ 229,435	\$ 975,447	\$ 290,054	\$ 223,923	\$ 18,247	\$ 1,737,106

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding balance of \$500,000 or more, regardless of the loans impairment classification.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration

COLONY BANKCORP, INC. AND SUBSIDIARIES

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of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses for unfunded commitments is separately classified on the balance sheet within Other liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the three and nine months ended September 30, 2023.

<i>(dollars in thousands)</i>	Total Allowance for Credit Losses- Unfunded Commitments
Three Months Ended	
Balance, June 30, 2023	\$ 1,570
Change in unfunded commitments	—
Balance, September 30, 2023	<u>\$ 1,570</u>
Nine Months Ended	
Balance, December 31, 2022	\$ —
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13	1,661
Change in unfunded commitments	(91)
Balance, September 30, 2023	<u>\$ 1,570</u>

(5) Derivatives

As part of its asset liability management activities, the Company may enter into interest rate swaps to help manage its interest rate risk position and mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company entered into two interest rate swaps during the second quarter of 2023, to hedge the variability of cash flows due to changes in interest rates on certain variable rate liabilities. There were no additional interest rate swaps during the third quarter of 2023.

The notional amount of an interest rate swap does not represent the amount exchanged by the parties. The exchange of cash flows is determined by reference to the notional amount and the other terms of the interest rate swap agreements.

On June 23, 2023, the Company entered into a five-year interest rate swap with a notional amount totaling \$25.0 million. On June 26, 2023 the Company entered into a three-year interest rate swap with a notional amount totaling \$25.0 million. Both of the swaps were designated as cash flow hedges of certain variable rate liabilities.

The derivatives are recorded in other assets on the Company's balance sheet and has a value of \$ 914,000 as of September 30, 2023.

Gains were recorded on the swap transactions, which totaled \$164,000 and \$173,000 for the three and nine months ended September 30, 2023, respectively as a component of interest expense in the consolidated statements of income. Amounts

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reported in accumulated OCI related to swaps are reclassified to interest expense as interest payments are made on the Bank's variable rate liabilities.

The following table presents the amounts recorded in the consolidated statements of income and the consolidated statements of comprehensive income relating to the interest rate swaps for the three and nine months ended September 30, 2023.

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Amount of gain recognized in OCI	\$ 482	\$ 681
Amount of gain reclassified from OCI to interest expense	164	173

(6) Borrowings

The following table presents information regarding the Company's outstanding borrowings at September 30, 2023 and December 31, 2022:

<i>(dollars in thousands)</i>	September 30, 2023	December 31, 2022
Federal Home Loan Bank advances	185,000	125,000
Other borrowings	63,422	78,352
	<u>\$ 248,422</u>	<u>\$ 203,352</u>

Advances from the Federal Home Loan Bank ("FHLB") have maturities ranging from 2023 to 2028 and interest rates ranging from 3.69% to 5.57%. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans, commercial loans, multifamily loans and HELOC loans. At September 30, 2023, the lendable collateral of those loans pledged is \$276.6 million. At September 30, 2023, the Company had remaining credit availability from the FHLB of \$587.9 million. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The Company's debentures issued in connection with trust preferred securities are recorded as other borrowings on the consolidated balance sheets, but, subject to certain limitations, qualify as Tier 1 capital for regulatory capital purposes. At September 30, 2023 and December 31, 2022, \$24.2 million of debentures underlying trust preferred securities were outstanding. The proceeds from the offerings were used to fund certain acquisitions, pay off holding company debt and inject capital into the bank subsidiary. The debentures underlying the trust preferred securities require quarterly interest payments.

On May 20, 2022, the Company completed a private placement of \$ 40.0 million in fixed-to-floating rate subordinated notes due 2032 (the "Notes"). The Notes will bear a fixed rate of 5.25% for the first five years and will reset quarterly thereafter to then current three-month Secured Overnight Financing Rate, as published by the Federal Reserve Bank of New York, plus 265 basis points for the five-year floating term. The Company is entitled to redeem the Notes, in whole or in part, on any interest payment date on or after May 20, 2027, or at any time, in whole or in part, upon certain other specified events. At September 30, 2023, \$39.2 million of the Notes, net of debt issuance costs were outstanding.

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The aggregate stated maturities of other borrowed money at September 30, 2023 are as follows:

(dollars in thousands)

Year	Amount
2023	\$ 50,000
2024	30,000
2025	—
2026	25,000
2027	15,000
2028 and After	128,422
	<u>\$ 248,422</u>

The Company also has available federal funds lines of credit with various financial institutions totaling \$ 64.5 million, with no outstanding balance at September 30, 2023.

The Company has the ability to borrow funds from the Federal Reserve Bank ("FRB") of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At September 30, 2023, the Company had \$54.3 million borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

The Company also has the ability to participate in the FRB Term Funding Program, a new form of one-year emergency funding, with an available line of \$100.0 million. The Company would be required to purchase Treasury securities or other debt obligations. The Company has not utilized this source of funding as of September 30, 2023.

(7) Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock.

The following table presents earnings per share for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator				
Net income available to common stockholders	\$ 5,804	\$ 5,252	\$ 16,149	\$ 13,991
Denominator				
Weighted average number of common shares				
Outstanding for basic earnings per common share	17,569,493	17,645,119	17,581,817	17,042,838
Weighted-average number of shares outstanding for diluted earnings per common share	17,569,493	17,645,119	17,581,817	17,042,838
Earnings per share - basic	\$ 0.33	\$ 0.30	\$ 0.92	\$ 0.82
Earnings per share - diluted	\$ 0.33	\$ 0.30	\$ 0.92	\$ 0.82

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(8) Commitments and Contingencies

Credit-Related Financial Instruments. The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, oil, gas and mineral interests, property, plant, and equipment.

At September 30, 2023 and December 31, 2022 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September 30, 2023	December 31, 2022
<i>(dollars in thousands)</i>		
Loan commitments	\$ 402,949	\$ 379,997
Letters of credit	5,656	3,333

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby and performance letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Legal Contingencies. In the ordinary course of business, there are various legal proceedings pending against the Company and the Bank. As of September 30, 2023, the aggregate liabilities, if any, arising from such proceedings would not, in the opinion of management, have a material adverse effect on the Company's consolidated financial position.

(9) Fair Value of Financial Instruments and Fair Value Measurements

Generally accepted accounting standards in the U.S. require disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company and the Bank's financial instruments are detailed hereafter. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

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Generally accepted accounting principles related to Fair Value Measurements define fair value, establish a framework for measuring fair value, establish a three-level valuation hierarchy for disclosure of fair value measurement and enhance disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and represent the Company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

Cash and short-term investments – For cash, due from banks, bank-owned deposits and federal funds sold, the carrying amount is a reasonable estimate of fair value and is classified as Level 1.

Investment securities – Fair values for investment securities are based on quoted market prices where available and classified as Level 1. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and classified as Level 2. If a comparable is not available, the investment securities are classified as Level 3.

Other investments, at cost – The fair value of other bank stock approximates carrying value and is classified as Level 2. Fair values for investment funds are based on quoted market prices where available and classified as Level 1. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and classified as Level 2. If a comparable is not available, the investment securities are classified as Level 3.

Loans held for sale – The fair value of loans held for sale is determined on outstanding commitments from third party investors in the secondary markets and is classified within Level 2 of the valuation hierarchy.

Loans – The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. Most loans are classified as Level 3.

Derivative instruments – The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The interest rate swaps are classified as Level 2.

Deposit liabilities – The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date and is classified as Level 2. The fair value of deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities and is classified as Level 2.

Federal funds purchased – The carrying amounts of Federal funds purchased approximate fair value and are classified as Level 2.

Federal Home Loan Bank advances – The fair value of Federal Home Loan Bank advances is estimated by discounting the future cash flows using the current rates at which similar advances would be obtained. Federal Home Loan Bank advances are classified as Level 2.

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Other borrowings – The fair value of other borrowings is calculated by discounting contractual cash flows using an estimated interest rate based on current rates available to the Company for debt of similar remaining maturities and collateral terms. Other borrowings is classified as Level 2 due to their expected maturities.

Disclosures of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis, are required in the financial statements.

The carrying amount, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments as of September 30, 2023 and December 31, 2022 are as follows:

	Fair Value Measurements				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
<i>(dollars in thousands)</i>					
September 30, 2023					
Assets					
Cash and short-term investments	\$ 141,340	\$ 141,340	\$ 141,340	\$ —	\$ —
Investment securities available for sale	399,547	399,547	—	386,102	13,445
Investment securities held to maturity	451,056	385,065	—	385,065	—
Other investments, at cost	17,323	17,323	—	17,323	—
Loans held for sale	27,246	27,246	—	27,246	—
Loans, net	1,847,603	1,638,269	—	—	1,638,269
Derivative instruments	914	914	—	914	—
Liabilities					
Deposits	2,591,332	2,582,790	—	2,582,790	—
Federal Home Loan Bank advances	185,000	189,065	—	189,065	—
Other borrowings	63,422	48,475	—	48,475	—

	Fair Value Measurements				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
<i>(dollars in thousands)</i>					
December 31, 2022					
Assets					
Cash and short-term investments	\$ 80,678	\$ 80,678	\$ 80,678	\$ —	\$ —
Investment securities available for sale	432,553	432,553	—	416,957	15,596
Investment securities held to maturity	465,858	411,264	—	411,264	—
Other investments, at cost	13,793	13,793	—	13,003	790
Loans held for sale	17,743	17,743	—	17,743	—
Loans, net	1,720,978	1,469,707	—	—	1,469,707
Liabilities					
Deposits	2,490,997	2,489,481	—	2,489,481	—
Federal Home Loan Bank advances	125,000	125,163	—	125,163	—
Other borrowings	78,352	69,930	—	69,930	—

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring and nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities – Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

Collateral dependent impaired loans – Prior to the adoption of ASU 2016-13, impaired loans were those loans which the Company measured impairment generally based on the fair value of the loan's collateral. Fair value was generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets were included as Level 3 fair values, based upon the lowest level of input that was significant to the fair value measurements.

Other Real Estate Owned – Other real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Typically, an external, third-party appraisal is performed on the collateral upon transfer into the other real estate owned account to determine the asset's fair value. Subsequent adjustments to the collateral's value may be based upon either updated third-party appraisals or management's knowledge of the collateral and the current real estate market conditions. Appraised amounts used in determining the asset's fair value, whether internally or externally prepared, are discounted 10% to account for selling and marketing costs. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of other real estate owned assets and because of the relationship between fair value and general economic conditions, we consider the fair value of other real estate owned assets to be highly sensitive to changes in market conditions.

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Notes to Consolidated Financial Statements (Unaudited)

Assets Measured at Fair Value on a Recurring and Nonrecurring Basis – The following tables present the recorded amount of the Company's assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2023 and December 31, 2022, aggregated by the level in the fair value hierarchy within which those measurements fall. The tables below include only collateral dependent impaired loans with a specific reserve and only other real estate properties with a valuation allowance at September 30, 2023 and December 31, 2022. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

(dollars in thousands)	Total Fair Value	Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
September 30, 2023				
Nonrecurring				
Collateral dependent impaired loans	\$ 628	\$ —	\$ —	\$ 628
Other real estate owned	812	—	—	812
Total nonrecurring assets	\$ 1,440	\$ —	\$ —	\$ 1,440

		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Total Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2022				
Nonrecurring				
Collateral dependent impaired loans	\$ 521	\$ —	\$ —	\$ 521
Other real estate owned	651	—	—	651
Total nonrecurring assets	\$ 1,172	\$ —	\$ —	\$ 1,172

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table presents quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at September 30, 2023 and December 31, 2022. This table is comprised primarily of collateral dependent impaired loans and other real estate owned:

(dollars in thousands)	September 30, 2023	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Collateral dependent impaired loans	\$ 628	Appraised Value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	— % 50 %
Other real estate owned	812	Appraised Value/Comparable Sales	Discounts to reflect current market conditions and estimated costs to sell	— % 20 %
(dollars in thousands)	December 31, 2022	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Collateral dependent impaired loans	\$ 521	Appraised Value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	25 % 50 %
Other real estate owned	651	Appraised Value/Comparable Sales	Discounts to reflect current market conditions and estimated costs to sell	— % 20 %

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The following table presents quantitative information about recurring level 3 fair value measurements as of September 30, 2023 and December 31, 2022.

As of September 30, 2023				
(dollars in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Available for sale securities	\$ 13,445	Discounted Cash Flow	Discount Rate or Yield	N/A*
Other investments	—	Discounted Cash Flow	Discount Rate or Yield	N/A*

As of December 31, 2022				
(dollars in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Available for sale securities	\$ 15,596	Discounted Cash Flow	Discount Rate or Yield	N/A*
Other investments	790	Discounted Cash Flow	Discount Rate or Yield	N/A*

* The Company relies on a third-party pricing service to value its securities. The details of the unobservable inputs and other adjustments used by the third-party pricing service were not readily available to the Company.

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the three and nine months ended September 30, 2023.

(dollars in thousands)	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Available for sale securities	Other Investments	Available for sale securities	Other Investments
Balance, Beginning	\$ 13,805	\$ —	\$ 15,596	\$ 790
Redemptions/Payments	(482)	—	(2,137)	(800)
Fair value adjustments	122	—	(394)	10
Transfer to Level 3	—	—	380	—
Balance, Ending	<u>\$ 13,445</u>	<u>\$ —</u>	<u>\$ 13,445</u>	<u>\$ —</u>

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There was \$ 0 and \$380,000 in transfers between levels for the three and nine months ended September 30, 2023, respectively, and no transfers of securities between levels for the three and nine months ended September 30, 2022.

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Notes to Consolidated Financial Statements (Unaudited)

(10) Segment Information

The Company's operating segments include banking, mortgage banking and small business specialty lending division. The reportable segments are determined by the products and services offered, and internal reporting. The Bank segment derives its revenues from the delivery of full-service financial services, including retail and commercial banking services and deposit accounts. The Mortgage Banking segment derives its revenues from the origination and sales of residential mortgage loans held for sale. The Small Business Specialty Lending Division segment derives its revenue from the origination, sales and servicing of Small Business Administration loans and other government guaranteed loans. Segment performance is evaluated using net interest income and noninterest income. Income taxes are allocated based on income before income taxes, and indirect expenses (includes management fees) are allocated based on various internal factors for each segment. Transactions among segments are made at fair value. Information reported internally for performance assessment follows. The following tables present information reported internally for performance assessment for the three and nine months ended September 30,

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

2023 and 2022:

			Small Business Specialty Lending Division	
	Bank	Mortgage Banking		Totals
<i>(dollars in thousands)</i>				
Nine Months Ended September 30, 2023				
Net Interest Income	\$ 57,478	\$ 86	\$ 1,806	\$ 59,370
Provision for Credit Losses	1,246	—	854	2,100
Noninterest Income	16,584	5,017	4,728	26,329
Noninterest Expenses	52,115	5,723	5,640	63,478
Income Taxes	4,089	(125)	8	3,972
Segment Profit	\$ 16,612	\$ (495)	\$ 32	\$ 16,149
Segments Assets at September 30, 2023				
	\$ 2,999,071	\$ 9,991	\$ 84,761	\$ 3,093,823
Full time employees at September 30, 2023	382	45	33	460

			Small Business Specialty Lending Division	
	Bank	Mortgage Banking		Totals
<i>(dollars in thousands)</i>				
Nine Months Ended September 30, 2022				
Net Interest Income	\$ 58,203	\$ 145	\$ 924	\$ 59,272
Provision for Credit Losses	2,470	—	—	2,470
Noninterest Income	13,723	7,993	5,621	27,337
Noninterest Expenses	54,742	7,799	5,107	67,648
Income Taxes	2,174	104	222	2,500
Segment Profit	\$ 12,540	\$ 235	\$ 1,216	\$ 13,991
Segments Assets at December 31, 2022				
	\$ 2,857,893	\$ 18,221	\$ 60,456	\$ 2,936,570
Full time employees at September 30, 2022	396	61	29	486

			Small Business Specialty Lending Division	
	Bank	Mortgage Banking		Totals
<i>(dollars in thousands)</i>				
Three Months Ended September 30, 2023				
Net Interest Income	\$ 18,778	\$ 52	\$ 791	\$ 19,621
Provision for Credit Losses	286	—	714	1,000
Noninterest Income	6,233	1,725	1,760	9,718
Noninterest Expenses	16,653	2,040	2,188	20,881
Income Taxes	1,777	(53)	(70)	1,654
Segment Profit	\$ 6,295	\$ (210)	\$ (281)	\$ 5,804

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

			Small Business Specialty Lending Division	
	Bank	Mortgage Banking		Totals
<i>(dollars in thousands)</i>				
Three Months Ended September 30, 2022				
Net Interest Income	\$ 20,541	\$ 17	\$ 340	\$ 20,898
Provision for Credit Losses	1,320	—	—	1,320
Noninterest Income	4,255	2,345	1,546	8,146
Noninterest Expenses	17,537	2,289	1,541	21,367
Income Taxes	1,047	10	48	1,105
Segment Profit	<u>\$ 4,892</u>	<u>\$ 63</u>	<u>\$ 297</u>	<u>\$ 5,252</u>

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(11) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations.

As of September 30, 2023, the Company and the Bank were categorized as well-capitalized under the regulatory framework for prompt corrective action in effect at such time. To be categorized as well-capitalized, the Company and the Bank must have exceeded the well-capitalized guideline ratios in effect at the time, as set forth in the tables below, and have met certain other requirements. Management believes that the Company and the Bank exceeded all well-capitalized requirements at September 30, 2023, and there have been no conditions or events since quarter-end that would change the status of well-capitalized.

The following tables summarize regulatory capital information as of September 30, 2023 and December 31, 2022 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for September 30, 2023 and December 31, 2022 were calculated in accordance with the Basel III rules.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2023						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 331,389	15.11 %	\$ 175,454	8.00 %	\$ 219,318	10.00 %
Colony Bank	293,184	13.43	174,644	8.00	218,305	10.00
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	273,258	12.46	131,585	6.00	175,447	8.00
Colony Bank	274,246	12.56	131,009	6.00	174,679	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	249,029	11.36	98,647	4.50	142,490	6.50
Colony Bank	274,246	12.56	98,257	4.50	141,927	6.50
Tier 1 Capital to Average Assets						
Consolidated	273,258	8.93	122,400	4.00	153,000	5.00
Colony Bank	274,246	8.99	122,023	4.00	152,528	5.00

COLONY BANKCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 318,250	15.11 %	\$ 168,498	8.00 %	N/A	N/A
Colony Bank	272,812	12.99	168,014	8.00	\$ 210,017	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	262,999	12.49	126,341	6.00	N/A	N/A
Colony Bank	256,684	12.22	126,031	6.00	168,042	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	238,770	11.34	94,750	4.50	N/A	N/A
Colony Bank	256,684	12.22	94,524	4.50	136,534	6.50
Tier 1 Capital to Average Assets						
Consolidated	262,999	9.17	114,721	4.00	N/A	N/A
Colony Bank	256,684	8.97	114,463	4.00	143,079	5.00

(12) Subsequent Events

Dividend

On October 25, 2023, the Board of Directors declared a quarterly cash dividend of \$ 0.11 per share, to be paid on its common stock on November 22, 2023, to shareholders of record as of the close of business on November 8, 2023.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Colony Bankcorp, Inc. and our wholly owned subsidiary, Colony Bank, from December 31, 2022 through September 30, 2023 and on our results of operations for the three and nine months ended September 30, 2023 and 2022. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto in the Company's 2022 Form 10-K, and information presented elsewhere in this Quarterly Report on Form 10-Q, particularly the unaudited consolidated financial statements and related notes appearing in Item 1.

Forward-looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "strive," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors discussed elsewhere in this Quarterly Report on Form 10-Q and the following:

- the impact of current and future economic and market conditions generally (including seasonality) and in the financial services industry, nationally and within our primary market areas, including the effects of inflationary pressures, changes in interest rates, slowdowns in economic growth, and high unemployment rates, as well as the financial stress on borrowers and changes to customer and client behavior (including the velocity of loan repayment) and credit risk as a result of the foregoing
- changes in interest rate environment (including changes to the federal funds rate, the level and composition of deposits (as well as the cost of, and competition for, deposits), loan demand, liquidity and the values of loan collateral, securities and market fluctuations, and interest rate sensitive assets and liabilities), and competition in our markets may result in increased funding costs or reduced earning assets yields, thus reducing our margins and net interest income;
- our ability to comply with applicable capital and liquidity requirements, including our ability to generate liquidity internally or raise capital on favorable terms, including continued access to the debt and equity capital markets;
- the risk that a future economic downturn and contraction, including a recession, could have a material adverse effect on our capital, financial condition, credit quality, results of operations and future growth, including the risk that the strength of the current economic environment could be weakened by the impact of rising interest rates and inflation;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our borrowers and the success of various projects that we finance;
- concentration of our loan portfolio in real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- weakness in the real estate market, which can affect, among other things, the value of collateral securing mortgage loans, mortgage loan originations and delinquencies, and mortgage fee income;
- credit and lending risks associated with our construction and development, commercial real estate, commercial and industrial and residential real estate loan portfolios;

- negative impact in our mortgage banking services, including declines in our mortgage originations or profitability due to rising interest rates and increased competition and regulation, the Bank's or third party's failure to satisfy mortgage servicing obligations, loan modifications, the effects of judicial or regulatory requirements or guidance, and the possibility of the Bank being required to repurchase mortgage loans or indemnify buyers;
- our ability to attract sufficient loans that meet prudent credit standards, including in our construction and development, commercial and industrial and owner-occupied commercial real estate loan categories;
- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses ("ACL"), including the implementation of the Current Expected Credit Losses ("CECL") model;
- the adequacy of our reserves (including allowance for credit losses) and the appropriateness of our methodology for calculating such reserves;
- our ability to successfully execute our business strategy to achieve profitable growth;
- the concentration of our business within our geographic areas of operation in Georgia and Alabama and neighboring markets;
- our focus on small and mid-sized businesses;
- our ability to manage our growth;
- our ability to increase our operating efficiency;
- significant turbulence or a disruption in the capital or financial markets and the effect of a fall in stock market prices on our investment securities;
- risks that our cost of funding could increase, in the event we are unable to continue to attract stable, low-cost deposits and reduce our cost of deposits;
- inability of our risk management framework to effectively mitigate credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk and reputational risk;
- our ability to maintain expenses in line with current projections;
- the makeup of our asset mix and investments;
- external economic, political and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve, the impact of the U.S. credit rating downgrade, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- the risks relating to past acquisition including, without limitation: unexpected transaction costs, including the costs of integrating operations; the risks that the businesses will not be integrated successfully or that such integration may be more difficult, time-consuming or costly than expected; the potential failure to fully or timely realize expected revenues and revenue synergies, including as the result of revenues being lower than expected;
- uncertainty related to the transition away from the London Inter-bank Offered Rate ("LIBOR");
- continued or increasing competition from other financial institutions (including fintech companies), credit unions, and non-bank financial services companies, many of which are subject to different regulations than we are;
- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- restraints on the ability of the Bank to pay dividends to us, which could limit our liquidity;

- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- a failure in the internal controls we have implemented to address the risks inherent to the business of banking;
- inaccuracies in our assumptions about future events, which could result in material differences between our financial projections and actual financial performance;
- changes in our management personnel or our inability to retain motivate and hire qualified management personnel;
- the dependence of our operating model on our ability to attract and retain experienced and talented bankers in each of our markets, which may be impacted as a result of labor shortages;
- our ability to identify and address cyber-security risks, fraud and systems errors;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems, and the cost of defending against them and any reputational or other financial risks following such a cybersecurity incident ;
- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;
- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies;
- fraudulent and negligent acts by our clients, employees or vendors and our ability to identify and address such acts;
- risks related to potential acquisitions, including the risk that the regulatory environment may not be conducive to or may prohibit the consummation of future mergers and/or business combinations, may increase the length of time and amount of resources required to consummate such transactions, and may reduce the anticipated benefit;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage origination, sale and servicing operations;
- changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverage;
- changes in our accounting standards;
- changes in tariffs and trade barriers;
- changes in federal tax law or policy;
- the institution and outcome of litigation and other legal proceedings against us or to which we may become subject to;
- the impact of recent and future legislative and regulatory changes;
- examinations by our regulatory authorities;
- the effects of war or other conflicts (including the military conflict between Russia and Ukraine or the conflict in Israel and surrounding areas), acts of terrorism, acts of God, natural disasters, health emergencies, epidemics or pandemics, climate changes, or other catastrophic events that may affect general economic conditions;
- the risks related to environmental, social and governance ("ESG") strategies and initiatives, the scope and pace of which could alter the Company's reputation and shareholder, associate, customer and third-party affiliations;

- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget; and
- other risks and factors identified in our 2022 Form 10-K, this Quarterly Report on Form 10-Q for the period ended September 30, 2023, and in any of the Company's other reports filed with the U.S. Securities and Exchange Commission and available on its website at www.sec.gov.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Quarterly Report on Form 10-Q. Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by the forward looking statements in this Quarterly Report on Form 10-Q. In addition, our past results of operations are not necessarily indicative of our future results. You should not rely on any forward looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of September 30, 2023 and December 31, 2022, and results of operations for each of the three and nine month periods ended September 30, 2023 and 2022. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

At September 30, 2023, the Company had total consolidated assets of \$3.1 billion, total loans, net of \$1.8 billion, total deposits of \$2.6 billion, and stockholders' equity of \$238.7 million. The Company reported net income of \$5.8 million, or \$0.33 per diluted share, for the three months ended September 30, 2023 and \$16.1 million, or \$0.92 per diluted share, for the nine months ended September 30, 2023 compared to net income of \$5.3 million, or \$0.30 per diluted share, for the three months ended September 30, 2022 and \$14.0 million, or \$0.82 per diluted share, for the nine months ended September 30, 2022. The increase in net income for the three and nine months ended September 30, 2023 compared to the same periods ended September 30, 2022 was the result of the implementation and disciplined maintenance of expense controls to reduce noninterest expenses, primarily through a reduction in force in the first half of 2023 which continues to impact compensation expense, offset by decreases in mortgage fee income and gains on sales of SBA loans in the year to date period. In addition, increases can also be seen in wealth advisory and merchant services, equity investment income, gains on sales of assets along with SBA servicing and other related fee income,

Net interest income on a tax equivalent basis was \$19.8 million for the third quarter of 2023 compared to \$21.0 million for the third quarter of 2022. Net interest income on a tax equivalent basis for the nine months ended September 30, 2023 was \$59.9 million, compared to \$59.6 million for the nine months ended September 30, 2022. Quarter over quarter there was a decrease of \$1.2 million and only a slight increase in year to date comparisons. Increases can be seen in both income on interest earning assets offset by expenses on interest bearing liabilities due to the significant rise in interest rates period over period along with increases in FHLB advances. Income on interest earning assets increased \$8.9 million to \$32.8 million for the third quarter of 2023, and \$26.8 million to \$92.3 million for the nine month period ended September 30, 2023, each compared to the respective periods in 2022. Expense on interest bearing liabilities increased \$10.1 million to \$13.0 million for the third quarter of 2023, and \$26.5 million to \$32.3 million for the nine month period ended September 30, 2023, each compared to the respective periods in 2022.

Provision for credit losses for the three and nine months ended September 30, 2023 was \$1.0 million and \$2.1 million, which represents \$1.0 million and \$2.2 million in provision for credit losses on loans and \$0 and \$91,000 in release of credit losses on unfunded commitments, respectively. This is compared to \$1.3 million and \$2.5 million for the same periods in 2022, which represents provision for loan losses. For the third quarter of 2023, there were net charge-offs of \$698,000 compared to \$101,000 for the same period in 2022. Net charge-offs for the first nine months of 2023 were \$898,000 compared to \$198,000 for the same period in 2022. This uptick in loan charge-offs for both periods pertains to the non-government guaranteed portion of a limited number of loans within our Small Business Specialty Lending division. Colony's allowance for credit losses on loans was \$17.4 million, or 0.93% of total loans at September 30, 2023, compared to \$16.1 million, or 0.93% of total loans, at December 31, 2022. At September 30, 2023 and December 31, 2022, nonperforming assets were \$10.1 million and \$6.4 million, or 0.33% and 0.22% of total assets, respectively.

Noninterest income of \$9.7 million for the third quarter of 2023 represents an increase of \$1.6 million, or 19.30%, from the third quarter of 2022, primarily related to increases in insurance commissions, equity investment income and income on wealth advisory services which are included in other noninterest income. Noninterest income of \$26.3 million for the nine

months ended September 30, 2023 was down \$1.0 million, or 3.69% compared to the same period in 2022. This decrease was primarily due to decreases in both mortgage fee income and SBSL loan sales. See "Table 3 - Noninterest income" for more detail and discussion on the primary drivers to the variances in noninterest income.

For the three months ended September 30, 2023, noninterest expense was \$20.9 million, a decrease of \$486,000, or 2.27%, from the same period in 2022. For the nine months ended September 30, 2023, noninterest expense was \$63.5 million, a decrease of \$4.2 million, or 6.16%, from the same period in 2022. Decreases in noninterest expense were a result of overall decreases in salaries and employee benefits expenses related to lower commissions and bonus expenses. Data processing expense also decreased as a result of cost savings upon renewal of the core processing contract. See "Table 4 - Noninterest expense" for more detail and discussion on the primary drivers to the decrease in noninterest expense.

In June 2023, the Company entered into two interest rate swap agreements with notional amounts of \$25.0 million each. Both were designated as cash flow hedges to mitigate against rising interest rates and help protect funding costs in future quarters.

CECL Adoption

On January 1, 2023, the Company adopted ASC Topic 326 which replaced the incurred loss approach for measuring credit losses with an expected loss model, referred to the current expected credit loss ("CECL") model. CECL applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. The adoption of this guidance resulted in a decrease of the allowance for credit losses on loans of \$53,000, the creation of an allowance for unfunded commitments of \$1.7 million and a reduction of retained earnings of \$1.2 million, net of the increase in deferred tax assets of \$410,000.

Going forward, the impact of utilizing the CECL approach to calculate the allowance for credit losses will be significantly influenced by the composition, characteristics and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Material changes to these and other relevant factors may result in greater volatility to the provision for credit losses, and therefore, greater volatility to our reported earnings. See Notes 1 and 3 of our consolidated financial statements as of September 30, 2023, included elsewhere in this Form 10-Q, for additional information on the allowance for credit losses and the allowance for unfunded commitments.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with GAAP and conform to general practices within the banking industry. We have identified certain of its accounting policies as "critical accounting policies," consisting of those related to business combinations, allowance for credit losses and income taxes. In determining which accounting policies are critical in nature, we have identified the policies that require significant judgment or involve complex estimates. It is management's practice to discuss critical accounting policies with the Board of Directors' Audit Committee on a periodic basis, including the development, selection, implementation and disclosure of the critical accounting policies. The application of these policies has a significant impact on the Company's unaudited interim consolidated financial statements. Our financial results could differ significantly if different judgments or estimates are used in the application of these policies. All accounting policies described in Note 1 of our consolidated financial statements as of December 31, 2022, which are included in the Company's 2022 Form 10-K should be reviewed for a greater understanding of how we record and report our financial performance. Other than our methodology for estimating allowance for credit losses (mentioned below), there have been no significant changes to the Significant Accounting Policies as described in Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2022, which are included in the Company's 2022 Form 10-K.

Reserve for Credit Losses

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrower.

The reserve for credit losses consists of the allowance for credit losses ("ACL") and the allowance for unfunded commitments. As a result of our January 1, 2023 adoption of ASU No. 2016-13, and its related amendments, our methodology for estimating the reserve for credit losses changed significantly from December 31, 2022. The standard replaced the "incurred loss" approach with an "expected loss" approach known as the Current Expected Credit Losses ("CECL"). The CECL approach requires an estimate of the credit losses expected over the life of an exposure (or pool of

exposures). It removes the incurred loss approach's threshold that delayed the recognition of a credit loss until it was "probable" a loss event was "incurred."

The estimate of expected credit losses under the CECL approach is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. We then consider whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period from which historical experience was used. Finally, we consider forecasts about future economic conditions that are reasonable and supportable. The allowance for unfunded commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit. This allowance is estimated by loan segment at each balance sheet date under the CECL model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur.

Management's evaluation of the appropriateness of the reserve for credit losses is often the most critical of accounting estimates for a financial institution. Our determination of the amount of the reserve for credit losses is a critical accounting estimate as it requires significant reliance on the credit risk rating we assign to individual borrowers, the use of estimates and significant judgment as to the amount and timing of expected future cash flows, reliance on historical loss rates on homogenous portfolios, consideration of our quantitative and qualitative evaluation of economic factors, and the reliance on our reasonable and supportable forecasts. The reserve for credit losses attributable to each portfolio segment also includes an amount for inherent risks not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), local/regional economic trends and conditions, changes in underwriting standards, changes in collateral values, experience and depth of lending staff, trends in delinquencies, and the volume and terms of loans.

Recent Industry Developments

During 2023, the banking industry experienced significant volatility with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, uninsured deposit concentrations, unrealized securities losses and eroding consumer confidence in the banking system. Despite these negative industry developments, the Company's liquidity position and balance sheet remains robust. The Company's total deposits increased by 4.03% as compared to December 31, 2022, to \$2.59 billion at September 30, 2023 even though we continue to see mix and rate changes along with competition on deposit pricing. The Company's uninsured deposits represented 28.21% of total Bank deposits at September 30, 2023 compared to 34.85% of total Bank deposits at December 31, 2022. The Company also took a number of preemptive actions, which included proactive outreach to clients and actions to maximize its funding sources in response to these recent developments. Furthermore, the Company's capital remains strong with common equity Tier 1 and total capital ratios of 11.36% and 15.11%, respectively, as of September 30, 2023.

Results of Operations

We reported net income and diluted earnings per share of \$5.8 million and \$0.33, respectively, for the third quarter of 2023. This compares to net income and diluted earnings per share of \$5.3 million and \$0.30, respectively, for the same period in 2022. We reported net income and diluted earnings per share of \$16.1 million and \$0.92, respectively, for the first nine months of 2023. This compares to net income and diluted earnings per share of \$14.0 million and \$0.82, respectively, for the same period in 2022.

Net Interest Income

Net interest income, which is the difference between interest earned on assets and the interest paid on deposits and borrowed funds, is the single largest component of total revenue. Management strives to optimize this income while balancing interest rate, credit and liquidity risks.

The banking industry uses two key ratios to measure relative profitability of net interest income. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the effect of noninterest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's balance sheet and is defined as net interest income as a percent of average total interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with noninterest-bearing deposits and stockholders' equity.

Fully taxable equivalent net interest income for the third quarter of 2023 and 2022 was \$19.8 million and \$21.0 million, respectively. This decrease quarter over quarter can be seen in increases in rates paid on deposits and borrowings which outpaced the increases in rates on loans and securities. The net interest margin for the third quarter of 2023 and 2022 was 2.78% and 3.26%, respectively. This decrease in net interest margin for the third quarter of 2023 compared to the same period in 2022 is primarily a result of the increase in higher yields paid on deposits and borrowing that outpaced the increase in rates on loans and investments.

Fully taxable equivalent net interest income for the nine months ended September 30, 2023 and 2022 was \$59.9 million and \$59.6 million, respectively. This increase is primarily due to an increase in volume of interest earning assets which outpaced the volume in interest earning liabilities. The net interest margin for the nine months ended September 30, 2023 and 2022 was 2.87% and 3.19%, respectively. This decrease in net interest margin for the nine months ended September 30, 2023 compared to the same period in 2022 is primarily a result of the increase in higher yields paid on deposits and borrowing that outpaced the increase in rates on loans and investments.

The following tables indicate the relationship between interest income and interest expense and the average amounts of assets and liabilities for the periods indicated. As shown in the tables, both average assets and average liabilities for the three and nine months ended September 30, 2023 increased compared to the same period in 2022. The increase in average assets was primarily driven by the increase in the loan portfolio of \$329.9 million for the three months ended September 30, 2023 compared to the same period in 2022, which primarily reflects organic loan growth and an increase in deposits in banks and short term investments of \$7.8 million, partially offset by a decrease of \$66.1 million in the securities portfolio. The increase in average liabilities for the three months ended September 30, 2023 was funded through an increase in interest bearing deposits of \$260.6 million and borrowings of \$59.6 million. The increase in average assets was primarily driven by the increase in the loan portfolio of \$384.7 million for the nine months ended September 30, 2023 compared to the same period in 2022, which primarily reflects organic loan growth, partially offset by a decrease of \$61.5 million in the securities portfolio and a decrease in deposits in banks and short term investments of \$33.6 million. The increase in average liabilities for the nine months ended September 30, 2023 was funded through an increase in interest bearing deposits of \$219.0 million and borrowings of \$119.4 million. The net interest spread, as well as the net interest margin, will continue to be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment.

The yield on total interest-bearing liabilities increased from 0.57% in the third quarter of 2022 to 2.26% in the third quarter of 2023. The yield on total interest-bearing liabilities increased from 0.41% for the nine months ended September 30, 2022 to 1.94% for the nine months ended September 30, 2023 due to increases in the federal funds interest rate during 2022 and 2023. Since September 2022, the Federal Reserve's Federal Open Market Committee ("FOMC") has raised the interest rate 225 basis points through September 30, 2023.

Table 1 - Average Balance Sheet and Net Interest Analysis

	Three Months Ended September 30,					
	2023			2022		
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
<i>(dollars in thousands)</i>						
Assets						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾	\$ 1,883,811	\$ 26,075	5.49 %	\$ 1,553,882	\$ 18,216	4.65 %
Investment securities, taxable	761,540	5,288	2.75	818,362	4,711	2.28
Investment securities, tax-exempt ⁽²⁾	106,136	610	2.28	115,368	638	2.19
Deposits in banks and short term investments	78,295	787	3.99	70,455	278	1.56
Total interest-earning assets	\$ 2,829,782	\$ 32,760	4.59 %	\$ 2,558,067	\$ 23,843	3.70 %
Noninterest-earning assets	228,703			219,323		
Total assets	\$ 3,058,485			\$ 2,777,390		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-earning demand and savings	\$ 1,382,638	\$ 4,455	1.28 %	\$ 1,424,171	\$ 772	0.21 %
Other time	672,442	5,883	3.47	370,282	677	0.72
Total interest-bearing deposits	2,055,080	10,338	2.00	1,794,453	1,449	0.32
Federal funds purchased	764	11	5.93	541	3	2.20
Federal Home Loan Bank advances	155,652	1,569	4.00	96,848	555	2.27
Other borrowings	66,342	1,041	6.22	65,741	822	4.96
Total other interest-bearing liabilities	222,758	2,621	4.67	163,130	1,380	3.36
Total interest-bearing liabilities	\$ 2,277,838	\$ 12,959	2.26 %	\$ 1,957,583	\$ 2,829	0.57 %
Noninterest-bearing liabilities:						
Demand deposits	509,946			572,257		
Other liabilities	31,130			11,993		
Stockholders' equity	239,571			235,557		
Total noninterest-bearing liabilities and stockholders' equity	780,647			819,807		
Total liabilities and stockholders' equity	\$ 3,058,485			\$ 2,777,390		
Interest rate spread			2.34 %			3.13 %
Net interest income		\$ 19,801			\$ 21,014	
Net interest margin			2.78 %			3.26 %

1. The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable-equivalent adjustments totaling \$54,000 and \$33,000 for the quarters ended September 30, 2023 and 2022, respectively, are calculated using the statutory federal tax rate and are included in income and fees on loans. Accretion income of \$36,000 and \$122,000 for the quarters ended September 30, 2023 and 2022 are also included in income and fees on loans.

2. Taxable-equivalent adjustments totaling \$128,000 and \$83,000 for the quarters ended September 30, 2023 and 2022, respectively, are included in tax-exempt interest on investment securities.

Table 1 - Average Balance Sheet and Net Interest Analysis

	Nine Months Ended September 30,					
	2023			2022		
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
<i>(dollars in thousands)</i>						
Assets						
Interest-earning assets:						
Loans, net of unearned income ⁽³⁾	\$ 1,833,405	\$ 72,403	5.28 %	\$ 1,448,661	\$ 50,573	4.67 %
Investment securities, taxable	779,940	16,167	2.77	837,492	12,795	2.04
Investment securities, tax-exempt ⁽⁴⁾	106,599	1,837	2.30	110,561	1,661	2.01
Deposits in banks and short term investments	67,828	1,853	3.65	101,432	437	0.58
Total interest-earning assets	\$ 2,787,772	\$ 92,260	4.42 %	\$ 2,498,146	\$ 65,466	3.50 %
Noninterest-earning assets	224,985			213,556		
Total assets	\$ 3,012,757			\$ 2,711,702		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-earning demand and savings	\$ 1,388,248	\$ 10,201	0.98 %	\$ 1,432,892	\$ 1,340	0.13 %
Other time	611,032	13,692	3.00	347,383	1,334	0.51
Total interest-bearing deposits	1,999,280	23,893	1.60	1,780,275	2,674	0.20
Federal funds purchased	3,703	146	5.29	2,820	22	1.04
Federal Home Loan Bank advances ⁽⁵⁾	161,099	5,140	4.27	65,191	1,746	3.58
Other borrowings	70,234	3,164	6.02	47,675	1,441	4.04
Total other interest-bearing liabilities	235,036	8,450	4.81	115,686	3,209	3.71
Total interest-bearing liabilities	\$ 2,234,316	\$ 32,343	1.94 %	\$ 1,895,961	\$ 5,883	0.41 %
Noninterest-bearing liabilities:						
Demand deposits	526,469			564,425		
Other liabilities	13,897			11,357		
Stockholders' equity	238,075			239,959		
Total noninterest-bearing liabilities and stockholders' equity	778,441			815,741		
Total liabilities and stockholders' equity	\$ 3,012,757			\$ 2,711,702		
Interest rate spread			2.49 %			3.09 %
Net interest income		\$ 59,917			\$ 59,583	
Net interest margin			2.87 %			3.19 %

3 The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable-equivalent adjustments totaling \$162,000 and \$95,000 for the nine months ended September 30, 2023 and 2022, respectively, are calculated using the statutory federal tax rate and are included in income and fees on loans. Accretion income of \$160,000 and \$550,000 for the nine months ended September 30, 2023 and 2022 are also included in income and fees on loans.

4 Taxable-equivalent adjustments totaling \$386,000 and \$216,000 for the nine months ended September 30, 2023 and 2022, respectively, are included in tax-exempt interest on investment securities.

5 Federal Home Loan Bank advances interest expense includes \$751,000 for the nine months ended September 30, 2022 and is the recognized mark on two advances that were acquired in the SouthCrest acquisition that were called early.

The following table presents the effect of net interest income for changes in the average outstanding volume amounts of interest-earning assets and interest-bearing liabilities and the rates earned and paid on these assets and liabilities for the nine month period ended September 30, 2023 compared to the nine month period ended September 30, 2022.

Table 2 - Change in Interest Revenue and Expense on a Taxable Equivalent Basis

(dollars in thousands)	Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022 Increase (Decrease) Due to Changes in		
	Volume	Rate	Total
Interest-earning assets:			
Loans, net of unearned fees	\$ 17,968	\$ 3,862	\$ 21,830
Investment securities, taxable	(1,174)	4,546	3,372
Investment securities, tax-exempt	(80)	256	176
Deposits in banks and short term investments	(195)	1,611	1,416
Total interest-earning assets (FTE)	16,519	10,275	26,794
Interest-bearing liabilities:			
Interest-Bearing Demand and Savings Deposits	(58)	8,919	8,861
Time Deposits	1,345	11,013	12,358
Federal funds purchased	9	115	124
Federal Home Loan Bank Advances	3,434	(40)	3,394
Other Borrowed Money	911	812	1,723
Total interest-bearing liabilities	5,641	20,819	26,460
Increase in net interest income (FTE)	\$ 10,878	\$ (10,544)	\$ 334

Provision for Credit Losses

The provision for credit losses is based on management's evaluation of probable, inherent losses in the loan portfolio and unfunded commitments and the corresponding analysis of the allowance for credit losses at quarter-end. Provision for credit losses for the three and nine months ended September 30, 2023 was \$1.0 million and \$2.1 million compared to \$1.3 million and \$2.5 million for the same periods in 2022, respectively. The amount of provision expense recorded in each period was the amount required such that the total allowance for credit losses reflected the appropriate balance, in the estimation of management, sufficient to cover expected credit losses over the expected life of a loan exposure and unfunded commitments where the likelihood is that funding will occur. The provision for credit losses for quarter ended September 30, 2023 includes \$1.0 million in provision for credit losses on loans and \$0 in release of credit losses on unfunded commitments. The provision for credit losses for the nine months ended September 30, 2023 includes \$2.2 million in credit losses on loans and \$91,000 in release of credit losses on unfunded commitments. See the section captioned "Loans and Allowance for Credit Losses" elsewhere in this discussion for further analysis of the provision for credit losses.

Noninterest Income

The following table represents the major components of noninterest income for the periods indicated.

Table 3 - Noninterest Income

(dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
			Change				Change	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
Service charges on deposits	\$ 2,200	\$ 2,104	\$ 96	4.6 %	\$ 6,141	\$ 5,823	\$ 318	5.5 %
Mortgage fee income	1,730	1,708	22	1.3	4,928	7,356	(2,428)	(33.0)
Gain on sales of SBA loans	1,268	1,215	53	4.4	3,429	4,805	(1,376)	(28.6)
(Loss)/gain on sales of securities	—	(96)	96	100.0	—	(72)	72	(100.0)
Interchange fee	2,202	2,179	23	1.1	6,400	6,338	62	1.0
BOLI income	335	312	23	7.4	1,024	977	47	4.8
Insurance commissions	509	466	43	9.2	1,410	1,328	82	6.2
Other noninterest income	1,474	258	1,216	471.3	2,997	782	2,215	283.2
Total noninterest income	\$ 9,718	\$ 8,146	\$ 1,572	19.30 %	\$ 26,329	\$ 27,337	\$ (1,008)	(3.69)%

For the three and nine months ended September 30, 2023, noninterest income increased \$1.6 million and decreased \$1.0 million, respectively compared to the same periods in 2022. The primary reason for the three month increase was due to increases in insurance commissions, equity investment income and income on wealth advisory services which are included in other noninterest income. The primary reason for the nine month decrease was due to decreases in both mortgage fee income and gains on sales of SBA loans offset by increases in insurance commissions, equity investment income and income on wealth advisory services which are included in other noninterest income.

Service charges on deposit accounts. For the three and nine months ended September 30, 2023, services charges on deposits was \$2.2 million and \$6.1 million compared to \$2.1 million and \$5.8 million for the same periods ended September 30, 2022, an increase of \$96,000 and \$318,000, respectively. These increases in service charges on deposits can be attributed to the Company's strong retail banking center footprint and our ability to continue to grow core deposits despite the challenging rate environment.

Mortgage Fee Income. For the three and nine months ended September 30, 2023, mortgage fee income was \$1.7 million and \$4.9 million compared to \$1.7 million and \$7.4 million for the same periods ended September 30, 2022, a minimal increase of \$22,000, and decrease of \$2.4 million, respectively. These variances in mortgage fee income were the result of rising interest rates which has caused a slowdown in the demand for mortgage products and thus a year to date decrease in mortgage fee income.

Gain on Sales of SBA loans. For the three and nine months ended September 30, 2023, net realized gains on the sale of the guaranteed portion of SBA loans totaled \$1.3 million and \$3.4 million compared to \$1.2 million and \$4.8 million in the same periods ended September 30, 2022, a slight increase of \$53,000 and a decrease of \$1.4 million, respectively. These variances are related to the shift in the Company's production towards adjustable rate portfolio products which caused a decrease in our secondary market production and in turn a year to date decrease in the gain on sales of SBA loans.

Interchange Fees. For the three and nine months ended September 30, 2023, interchange fee income was \$2.2 million and \$6.4 million compared to \$2.2 million and \$6.3 million for the same periods ended September 30, 2022, an increase of \$23,000 and \$62,000, respectively. These slight movements in interchange fees are the result of customer use of our MasterCard and Discover card programs whose buying habits can fluctuate between periods.

Insurance commissions. For the three and nine months ended September 30, 2023, insurance commissions were \$509,000 and \$1.4 million compared to \$466,000 and \$1.3 million for the same periods ended September 30, 2022, an increase of \$43,000 and \$82,000, respectively. These increases in insurance commissions are the result of increased volume in the Company's insurance division.

Other noninterest income. For the three and nine months ended September 30, 2023, other noninterest income was \$1.5 million and \$3.0 million compared to \$258,000 and \$782,000 for the same periods ended September 30, 2022, an increase of

\$1.2 million, and \$2.2 million, respectively. The increase in other noninterest income for the third quarter 2023 compared to 2022 was primarily attributable to an increase in wealth advisory and merchant services of \$306,000, equity investment market valuation gains of \$55,000 in the third quarter of 2023 compared to market valuation losses of \$92,000 in the third quarter of 2022, and gains on sales of assets of \$91,000 along with increases in SBA servicing and other related fee income. The increase in other noninterest income for the nine months ended September 30, 2023 compared to the same period in 2022 was attributable to an increase in wealth advisory and merchant services of \$639,000, equity investment market valuation gains in the first nine months of 2023 of \$149,000 compared to market valuation losses of \$357,000 in the first nine months of 2022, and gains on sales of assets of \$136,000 along with increases in SBA servicing and other related fee income.

Noninterest Expense

The following table represents the major components of noninterest expense for the periods indicated.

Table 4 - Noninterest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
			Change				Change	
(dollars in thousands)	2023	2022	Amount	Percent	2023	2022	Amount	Percent
Salaries and employee benefits \$	11,973	\$ 12,154	\$ (181)	(1.5)%	\$ 37,929	\$ 40,498	\$ (2,569)	(6.3)%
Occupancy and equipment	1,620	1,645	(25)	(1.5)	4,741	4,872	(131)	(2.7)
Information technology expenses	2,064	2,491	(427)	(17.1)	6,406	7,394	(988)	(13.4)
Professional fees	752	881	(129)	(14.6)	2,348	2,773	(425)	(15.3)
Advertising and public relations	766	876	(110)	(12.6)	2,432	2,406	26	1.1
Communications	224	471	(247)	(52.4)	710	1,325	(615)	(46.4)
Other noninterest expense	3,482	2,849	633	22.2	8,912	8,380	532	6.3
Total noninterest expense	\$ 20,881	\$ 21,367	\$ (486)	(2.3)%	\$ 63,478	\$ 67,648	\$ (4,170)	(6.2)%

Noninterest expense decreased for the three and nine months ended September 30, 2023 by \$486,000 and \$4.2 million compared to the same periods in 2022, respectively. Decreases were seen in all categories except other noninterest expense for the three month period and in all but advertising and public relations and other noninterest expense for the nine month period.

Salaries and employee benefits. Salaries and employee benefits for the three and nine months ended September 30, 2023 was \$12.0 million and \$37.9 million compared to \$12.2 million and \$40.5 million and for the same periods ended September 30, 2022, a decrease of \$181,000 and \$2.6 million, respectively. These decreases in salaries and employee benefits expenses are related to a reduction in force initiative along with lower commissions and bonus expenses.

Information technology expenses. Information technology expense for the three and nine months ended September 30, 2023 was \$2.1 million and \$6.4 million compared to \$2.5 million and \$7.4 million for the same periods ended September 30, 2022, a decrease of \$427,000 and \$988,000, respectively. These decreases relate to a decrease in data processing expenses due to a renewed contract with the Company's core processor resulting in cost savings which is partially offset by increased software expenses.

Professional fees. Professional fees for the three and nine months ended September 30, 2023 was \$752,000 and \$2.3 million compared to \$881,000 and \$2.8 million for the same periods ended September 30, 2022, a decrease of \$129,000 and \$425,000, respectively. These decreases are the result of lower consulting and legal fees in 2023 compared to 2022 which included fees associated with the acquisition of SouthCrest Financial Group, Inc.

Advertising and public relations. Advertising and public relations expenses for the three and nine months ended September 30, 2023 was \$766,000 and \$2.4 million compared to \$876,000 and \$2.4 million for the same periods ended September 30, 2022, a decrease of \$110,000 for the three month period and an increase of \$26,000 for the nine month period, respectively. The decrease for the three month period can be attributed to the expense control initiative implemented in 2023. The increase for the nine month period is the result of a donation to the Georgia Scholarship Program during the first quarter of 2023.

Communications. Communications expenses for the three and nine months ended September 30, 2023 was \$224,000 and \$710,000 compared to \$471,000 and \$1,325,000 for the same periods ended September 30, 2022, a decrease of \$247,000 and \$615,000, respectively. The decrease for both periods is the result of telephone service contracts related to the acquisition of SouthCrest Financial Group, Inc. that were paid through the end of the contracts, one in June 2022 and the other in August 2022.

Other noninterest expenses. Other noninterest expense for the three and nine months ended September 30, 2023 was \$3.5 million and \$8.9 million compared to \$2.8 million and \$8.4 million for the same periods ended September 30, 2022, an increase of \$633,000 and \$532,000, respectively. These increases relate primarily to increased servicing rights valuation, city and county taxes, SBA broker fees and other loan related costs offset by decreases in travel and entertainment, printing and supplies and deposit related expenses.

Income Tax Expense

Income tax expense for the three and nine months ended September 30, 2023 was \$1.7 million and \$4.0 million compared to \$1.1 million and \$2.5 million for the same periods in 2022. The Company's effective tax rates for the three and nine months ended September 30, 2023 were 22.2% and 19.7% compared to 17.4% and 15.2% for the three and nine months ended September 30, 2022. The largest driver of the difference is the tax exempt income primarily from BOLI and tax exempt interest along with the favorable tax impact of the donation made to the Georgia Scholarship Program during the first quarter of 2023 and Georgia state tax credits in 2022.

Balance Sheet Review

Total assets increased to \$3.1 billion at September 30, 2023 from \$2.9 billion at December 31, 2022.

Loans and Allowance for Credit Losses

At September 30, 2023, gross loans outstanding (excluding loans held for sale) were \$1.9 billion, an increase of \$127.9 million, or 7.4%, compared to \$1.7 billion at December 31, 2022.

At September 30, 2023, approximately 65.2% of our loans are secured by commercial real estate. Our total commercial real estate loans have decreased slightly during 2023 as our focus has been shifted away from commercial real estate lending and more toward residential real estate and consumer which is driven by our marine and RV lending division. We continue to maintain competitive loan pricing and tightened credit standards.

The following table presents a summary of the loan portfolio as of September 30, 2023 and December 31, 2022.

Table 5 - Loans Outstanding

(dollars in thousands)

	September 30, 2023	December 31, 2022
Construction, land & land development	\$ 245,268	\$ 229,435
Other commercial real estate	969,168	975,447
Total commercial real estate	1,214,436	1,204,882
Residential real estate	339,501	290,054
Commercial, financial & agricultural	252,725	223,923
Consumer and other	58,309	18,247
Total loans	\$ 1,864,971	\$ 1,737,106

The Company's risk mitigation processes include an independent loan review designed to evaluate the credit risk in the loan portfolio and to ensure credit grade accuracy. The analysis serves as a tool to assist management in assessing the overall credit quality of the loan portfolio and the adequacy of the allowance for credit losses. Loans classified as "substandard" are loans which are inadequately protected by the current credit worthiness and paying capacity of the borrower and/or the collateral pledged. These assets exhibit well-defined weaknesses or are showing signs there is a distinct possibility the Company will sustain some loss if the deficiencies are not corrected. These weaknesses may be characterized by past due performance, operating losses and/or questionable collateral values. Loans classified as "doubtful" are those loans that have characteristics similar to substandard loans but have an increased risk of loss. Loans classified as "loss" are those loans which are considered uncollectible and are in the process of being charged off.

The Company regularly monitors the composition of the loan portfolio as part of its evaluation over the adequacy of the allowance for credit losses. The Company focuses on the following loan categories: (1) construction, land & land

development; (2) commercial, financial & agricultural; (3) other commercial real estate; (4) residential real estate; and (5) consumer and other.

The allowance for credit losses for loans is a reserve established through charges to earnings in the form of a provision for credit losses. The provision for credit losses for loans is based on management's evaluation of the size and composition of the loan portfolio, the level of non-performing and past-due loans, historical trends of charged off loans and recoveries, prevailing economic conditions and other factors management deems appropriate. The Company's management has established an allowance for credit losses for loans which it believes is adequate to cover expected credit losses over the expected life of a loan exposure and unfunded commitments where the likelihood is that funding will occur. Based on a credit evaluation of the loan portfolio, management presents a quarterly review of the allowance for credit losses for loans and allowance for credit losses on unfunded commitments to the Company's Board of Directors, which primarily focuses on risk by evaluating individual loans in certain risk categories. These categories have also been established by management and take the form of loan grades. By grading the loan portfolio in this manner the Company's management is able to effectively evaluate the portfolio by risk, which management believes is the most effective way to analyze the loan portfolio and thus analyze the adequacy of the allowance for credit losses on loans.

The allowance for credit losses on loans is established by examining (1) the large classified loans, nonaccrual loans and loans considered impaired and evaluating them individually to determine the specific reserve allocation and (2) the remainder of the loan portfolio to allocate a portion of the allowance based on past loss experience and the economic conditions for the particular loan category. The Company also considers other factors such as changes in lending policies and procedures; changes in national, regional and/or local economic and business conditions; changes in the nature and volume of the loan portfolio; changes in the experience, ability and depth of either the market president or lending staff; changes in the volume and severity of past-due and classified loans; changes in the quality of the loan review system; and other factors management deems appropriate.

The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The ACL is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to fund.

The allowance for credit losses on loans was \$17.4 million at September 30, 2023 compared to \$15.2 million at September 30, 2022, an increase of \$2.2 million, or 14.4%. The allowance for credit losses on loans as a percentage of loans was 0.93% and 0.96% at September 30, 2023 and 2022, respectively. The provision for credit losses was \$1.0 million compared to \$1.3 million for the three months ended September 30, 2023 and September 30, 2022, respectively. The provision for credit losses for the quarter ended September 30, 2023 includes \$1.0 million in credit losses on loans and no change in credit losses on unfunded commitments. The provision for credit losses was \$2.1 million compared to \$2.5 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. The provision for credit losses for the nine months ended September 30, 2023 includes \$2.2 million in credit losses on loans and a release of \$91,000 in credit losses on unfunded commitments. The amount of provision expense recorded in each period was the amount required such that the total allowance for credit losses reflected the appropriate balance, in the estimation of management, that was sufficient to cover expected credit losses on loans over the expected life of a loan exposure and unfunded commitments where the likelihood is that funding will occur. The primary reason for the decrease in allowance to loans as a percentage for loans and provision is primarily due to the Bank's slowdown in loan growth, with a portion of that loan growth being the funding of loan commitments that were previously reserved for under the CECL methodology..

Additional information about the Company's allowance for credit losses is provided in Note 4 to our consolidated financial statements as of September 30, 2023, included elsewhere in this Quarterly Report on Form 10-Q.

The following table presents an analysis of the allowance for credit losses on loans as of and for the nine months ended September 30, 2023 and 2022:

Table 6 - Analysis of Allowance for Credit Losses on Loans

<i>(dollars in thousands)</i>	September 30, 2023		September 30, 2022	
	Reserve	%*	Reserve	%*
Construction, land & land development	\$ 2,215	13.2 %	\$ 1,930	14.9 %
Other commercial real estate	8,720	52.0 %	8,378	55.8 %
Residential real estate	2,773	18.2 %	1,935	15.2 %
Commercial, financial & agricultural	3,020	13.5 %	2,730	13.0 %
Consumer and other	640	3.1 %	209	1.1 %
	<u>\$ 17,368</u>	<u>100 %</u>	<u>\$ 15,182</u>	<u>100 %</u>

* Percentage represents the loan balance in each category expressed as a percentage of total end of period loans.

The following table presents a summary of allowance for credit loss for the three and nine months ended September 30, 2023 and 2022.

Table 7 - Summary of Allowance for Credit Losses on Loans

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
<i>(dollars in thousands)</i>				
Allowance for credit losses on loans - beginning balance	\$ 17,066	\$ 13,963	\$ 16,128	\$ 12,910
Adoption of ASU 2016-13	—	—	(53)	—
Charge-offs:				
Construction, land & land development	—	—	—	—
Other commercial real estate	—	—	—	58
Residential real estate	—	—	—	48
Commercial, financial & agricultural	714	118	1,157	266
Consumer and other	14	33	17	54
Total loans charged-off	728	151	1,174	426
Recoveries:				
Construction, land & land development	1	5	9	16
Other commercial real estate	8	5	33	79
Residential real estate	3	23	40	45
Commercial, financial & agricultural	13	7	180	63
Consumer and other	5	10	14	25
Total recoveries	30	50	276	228
Net (recoveries)/charge-offs	698	101	898	198
Provision for credit losses on loans	1,000	1,320	2,191	2,470
Allowance for credit losses on loans- ending balance	\$ 17,368	\$ 15,182	\$ 17,368	\$ 15,182
Net charge-offs to average loans (annualized)	0.15 %	0.03 %	0.07 %	0.02 %
Allowance for credit losses on loans to total loans	0.93	0.96	0.93	0.96
Allowance to nonperforming loans	187.44	286.34	187.44	286.34

Management believes the allowance for credit losses for loans is adequate to provide for losses inherent in the loan portfolio as of September 30, 2023.

Nonperforming Assets

Asset quality experienced a slight decrease during the first nine months of 2023. Nonperforming assets include nonaccrual loans, accruing loans contractually past due 90 days or more, repossessed personal property and other real estate owned ("OREO"). Nonaccrual loans totaled \$9.3 million at September 30, 2023, an increase of \$3.6 million, or 62.4%, from \$5.7 million at December 31, 2022. There was one loan contractually past due 90 days or more and still accruing totaling \$9 million at September 30, 2023. There was no repossessed personal property for either period presented. OREO totaled \$812,000 at September 30, 2023 compared to \$651,000 at December 31, 2022. As of September 30, 2023, total nonperforming assets as a percent of total assets increased to 0.33% compared with 0.22% at December 31, 2022. The increase in nonperforming assets was primarily due to the repurchase of the government guaranteed portion of nonperforming loans, which were repurchased as part of the liquidation process and have no expected losses.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent loan payments made on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as nonaccrual does not preclude the ultimate collection of loan principal or interest.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell, at the time of foreclosure is less than the loan balance, the deficiency is charged against the allowance for credit losses on loans. If the lesser of the fair value, less estimated costs to sell, or the listed selling price, less the costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property expense. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property.

Nonperforming assets at September 30, 2023 and December 31, 2022 were as follows:

Table 8 - Nonperforming Assets

(dollars in thousands)

	September 30, 2023	December 31, 2022
Nonaccrual loans	\$ 9,266	\$ 5,706
Loans past due 90 days and accruing	9	—
Other real estate owned	812	651
Repossessed assets	—	—
Total nonperforming assets	\$ 10,087	\$ 6,357
Nonaccrual loans by loan segment		
Construction, land & land development	\$ 92	\$ 149
Commercial real estate	1,589	1,509
Residential real estate	3,289	2,686
Commercial, financial & agricultural	4,275	1,341
Consumer & other	21	21
Total nonaccrual loans	\$ 9,266	\$ 5,706
NPAs as a percentage of total loans and OREO	0.54 %	0.37 %
NPAs as a percentages of total assets	0.33 %	0.22 %
Nonaccrual loans as a percentage of total loans	0.50 %	0.33 %

The Company had two loans modified due to financial difficulty during the nine month period ended September 30, 2023. See Note 3 - Loans, for additional details on loan modifications.

Deposits

Deposits at September 30, 2023 and December 31, 2022 were as follows:

Table 9 - Deposits

(dollars in thousands)

	September 30, 2023	December 31, 2022
Noninterest-bearing deposits	\$ 494,221	\$ 569,170
Interest-bearing deposits	740,672	831,152
Savings	681,229	617,135
Time, \$250,000 and over	187,218	114,780
Other time	487,992	358,760
Total deposits	<u>\$ 2,591,332</u>	<u>\$ 2,490,997</u>

Total deposits increased \$100.3 million to \$2.59 billion at September 30, 2023 from \$2.49 billion at December 31, 2022. As of September 30, 2023, 19.1% of total deposits were comprised of noninterest-bearing accounts and 80.9% were comprised of interest-bearing deposit accounts, compared to 22.8% and 77.2% as of December 31, 2022, respectively. The overall increase in our deposits is due primarily to the increase in rates the Company offers on its time deposit products coupled with the Company's diversified core deposit base and long customer relationships. An increase in brokered deposits used to fund loan growth has also contributed to the overall increase in deposits.

We had \$148.7 million and \$50.8 million in brokered deposits at September 30, 2023 and December 31, 2022, respectively. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to support our asset growth and augment the deposits generated from our branch network, which are our principal source of funding. Our level of brokered deposits varies from time to time depending on competitive interest rate conditions and other factors, and tends to increase as a percentage of total deposits when the brokered deposits are less costly than issuing internet certificates of deposit or borrowing from the FHLB.

The Company's estimated uninsured deposits were \$740.0 million at September 30, 2023, or 28.21% of total Bank deposits compared to \$882.2 million at December 31, 2022, or 34.85% of total Bank deposits. Adjusted uninsured deposit estimate (which excludes deposits collateralized by public funds and internal accounts) were \$451.9 million at September 30, 2023, or 17.22% of total Bank deposits compared to \$531.7 million at December 31, 2022, or 21.01% of total Bank deposits. Adjusted uninsured deposits represent a small percentage of our overall deposits, which increases the stability of our deposit base and lowers our overall funding risk.

Off-Balance Sheet Arrangements

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit, is based on management's credit evaluation of the borrower. The type of collateral held varies, but may include cash or cash equivalents, unimproved or improved real estate, personal property or other acceptable collateral.

See Note 7 to our consolidated financial statements as of September 30, 2023, included elsewhere in this Form 10-Q, for a table setting forth the financial instruments that were outstanding whose contract amounts represent credit risk and more information regarding our off-balance sheet arrangements as of September 30, 2023 and December 31, 2022.

Liquidity

An important part of the Bank's liquidity resides in the asset portion of the balance sheet, which provides liquidity primarily through loan interest and principal repayments and the maturities and sales of securities, as well as the ability to use these assets as collateral for borrowings on a secured basis.

The Bank's main source of liquidity is customer interest-bearing and noninterest-bearing deposit accounts. Liquidity is also available from wholesale funding sources consisting primarily of Federal funds purchased, FHLB advances and brokered deposits. These sources of liquidity are generally short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs. The Company also has access to the FRB Term Funding Program which offers loans to eligible depository institutions of up to one year in length.

To plan for contingent sources of funding not satisfied by both local and out-of-market deposit balances, the Company and the Bank have established multiple borrowing sources to augment their funds management. The Company has borrowing capacity through membership of the FHLB program. The Bank has also established overnight borrowing for Federal Funds purchased through various correspondent banks. There were no outstanding balances of Federal Funds purchased at September 30, 2023 and December 31, 2022, respectively.

Cash and cash equivalents at September 30, 2023 and December 31, 2022 were \$141.3 million and \$80.7 million, respectively. Cash and cash equivalents has increased since year end 2022, primarily due to increases in deposits. Management believes the various funding sources discussed above are adequate to meet the Company's liquidity needs without any material adverse impact on our operating results.

Liquidity management involves the matching of cash flow requirements of customers and the ability of the Company to manage those requirements. These requirements of customers include, but are not limited to, deposits being withdrawn or providing assurance to borrowers that sufficient funds are available to meet their credit needs. We strive to maintain an adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-bearing liabilities so that the balance we have in short-term assets at any given time will adequately cover any reasonably anticipated need for funds. Additionally, we maintain relationships with correspondent banks, which could provide funds on short notice, if needed. We have also invested in FHLB stock for the purpose of establishing credit lines with the FHLB. At September 30, 2023 and December 31, 2022, we had \$185.0 million and \$125.0 million, respectively, of outstanding advances from the FHLB. Based on the values of loans pledged as collateral, we had \$587.9 million and \$574.7 million of additional borrowing availability with the FHLB at September 30, 2023 and December 31, 2022, respectively.

Other sources of liquidity include overnight borrowings from the Federal Reserve Discount Window, as well as access to the FRB Term Funding Program, of \$54.3 million and \$100.0 million, respectively, of which there was no outstanding balance on either facility at September 30, 2023. The Company also had unencumbered securities of \$443.0 million, \$84.8 million in FRB Reserves and \$55.3 million in other cash and due from banks as of September 30, 2023. Unencumbered investment securities provide the ability to either be pledged as collateral with borrowing sources or sold and converted to cash.

The Company is a separate entity from the Bank, and as such it must provide for its own liquidity. The Company is responsible for the payment of dividends declared for its common shareholders and payment of interest and principal on any outstanding debt or trust preferred securities. These obligations are met through internal capital resources such as service fees and dividends from the Bank, which are limited by applicable laws and regulations.

Capital Resources

The Company and the Bank are required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy.

The table below summarizes the capital requirements applicable to the Company and the Bank in order to be considered "well-capitalized" from a regulatory perspective, as well as the Company's and the Bank's capital ratios as of September 30, 2023 and December 31, 2022. The Company and the Bank exceeded all regulatory capital requirements and was considered to be "well-capitalized" as of September 30, 2023 and December 31, 2022. There have been no conditions or events since

September 30, 2023 that management believes would change this classification.

Table 10 - Capital Ratio Requirements

	Minimum Requirement	Well-capitalized
Risk-based ratios:		
Common equity tier 1 capital (CET1)	4.5 %	6.5 %
Tier 1 capital	6.0	8.0
Total capital	8.0	10.0
Leverage ratio	4.0	5.0

Table 11 - Capital Ratios

Company	September 30, 2023	December 31, 2022
CET1 risk-based capital ratio	11.36 %	11.34 %
Tier 1 risk-based capital ratio	12.46	12.49
Total risk-based capital ratio	15.11	15.11
Leverage ratio	8.93	9.17
Colony Bank		
CET1 risk-based capital ratio	12.56 %	12.22 %
Tier 1 risk-based capital ratio	12.56	12.22
Total risk-based capital ratio	13.43	12.99
Leverage ratio	8.99	8.97

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposures are credit risk, interest rate risk, and to a lesser degree, liquidity risk. The Bank operates under an Asset Liability Management Policy which is approved by the ALCO, which is a Board committee that meets regularly. The policy outlines limits on interest rate risk in terms of changes in net interest income and changes in the net market values of assets and liabilities over certain changes in interest rate environments. These measurements are made through a simulation model which projects the impact of changes in interest rates on the Bank's assets and liabilities. The policy also outlines responsibility for monitoring interest rate risk and the process for the approval, implementation and monitoring of interest rate risk strategies to achieve the Bank's interest rate risk objectives.

The following table presents our interest sensitivity position at the dates indicated.

Table 12 - Interest Sensitivity

	Increase (Decrease) in Net Interest Income from Base Scenario at	
	September 30, 2023	December 31, 2022
Changes in rates		
200 basis point increase	(0.01)%	2.59%
100 basis point increase	0.05	1.37
100 basis point decrease	2.64	(0.61)

See Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of the Company's 2022 Form 10-K for additional disclosures related to market and interest rate risk.

There are no material changes during the period covered by this Report to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" previously disclosed in the Company's 2022 Form 10-K.

ITEM 4 – CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Acting Chief Financial Officer, the Company has evaluated its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, the Company's Chief Executive Officer and Acting Chief Financial Officer has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for ensuring that information the Company is required to disclose in reports that it files or submits under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's senior management, including its Chief Executive Officer and Acting Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2023, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

In the ordinary course of business, there are various legal proceedings pending against the Company and the Bank. The aggregate liabilities, if any, arising from such proceedings would not, in the opinion of management, have a material adverse effect on the Company's consolidated financial position.

ITEM 1A – RISK FACTORS

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Part I - Item 1A - Risk Factors" of the Company's 2022 Form 10-K and "Part II - Item 1A - Risk Factors" of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 ("2023 1Q Form 10-Q"), which could materially affect its business, financial position, results of operations, cash flows, or future results. Please be aware that these risks may change over time and other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our business, financial condition or results of operations, or the trading price of our securities.

There are no material changes during the period covered by this Report to the risk factors previously disclosed in the Company's 2022 Form 10-K and 2023 1Q Form 10-Q.

ITEM 2 – UNREGISTERED SALE OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

- (a) There were no unregistered shares of the Company's common stock sold during the three-month period ended September 30, 2023.
- (b) Not applicable.
- (c) There were no repurchases of our common stock during the third quarter of 2023.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

Pursuant to Item 408(a) of Regulation S-K, none of the Company's directors or executive officers adopted, terminated or modified a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the three months ended September 30, 2023.

ITEM 6 – EXHIBITS

- 3.1 [Articles of Incorporation, As Amended -filed as Exhibit 99.1 to the Registrant's Quarterly Report on Form 10-Q \(File No. 0-12436\), filed with the Commission on August 4, 2014 and incorporated herein by reference.](#)
- 3.2 [Articles of Amendment to Articles of Incorporation, As Amended, of Colony Bankcorp, Inc. -filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q \(File No. 0-12436\), filed with the Commission on August 12, 2022 and incorporated herein by reference.](#)
- 3.3 [Amended and Restated Bylaws -filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K \(File No. 000-12436\), filed with the Commission on September 18, 2020 and incorporated herein by reference.](#)
- 31 [Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022; (ii) Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2023 and 2022; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2023 and 2022; (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three and Nine Months Ended September 30, 2023 and 2022; (v) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2023 and 2022; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements*
- 104 The cover page from Colony Bankcorp's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2023 (formatted in Inline XBRL and included in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Colony Bankcorp, Inc.

/s/ T. Heath Fountain

Date: November 8, 2023

T. Heath Fountain

Chief Executive Officer/Acting Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, T. Heath Fountain certify that:

1. I have reviewed this quarterly report on Form 10-Q of Colony Bankcorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2023

/s/ T. Heath Fountain

T. Heath Fountain

Chief Executive Officer and Acting Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Colony Bankcorp, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), T. Heath Fountain, Chief Executive Officer and Acting Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 8, 2023

/s/ T. Heath Fountain

T. Heath Fountain

Chief Executive Officer and Acting Chief Financial Officer

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.